Getting Started in Self Storage

A guide for potential developers and investors



Storco.

Introduction

An apartment-dwelling family in the inner suburbs of Melbourne keep treasured children's drawings, old family photos, and an antique dining table their grandparents left them in a 3×3m unit – their apartment just isn't big enough to keep it all there.



A tradie in Geelong has a 6×3m unit fitted out with storage racks for his building materials; his wife was sick of it all coming home and taking up space in their yard.

An enterprising young couple in Sydney run an ecommerce website and regularly run dropshipped stock to and from their 4×5m unit.

A unit student heading home stores her textbooks and study materials in a 1m³ locker during semester breaks.

The owner of a small clothing retailer in Perth is legally required to store paper records for as long as seven years. There's no space in the small retail shop and she doesn't want it at home, so she rents a 3×1m unit.

A hard-working Penrith family keep their caravan in a 6×8 unit; it's more secure there and less likely to get sideswiped by a car when parked on the side of the road outside their house.

Self storage facilities are a specialised area of commercial real estate, offering consistent and steady rates of return on investment. While you might think that only people moving house use self storage, the reality is that customers use the facilities for a wide variety of reasons, and this variety is what gives the industry its stability.

> **With less volatility than retail, fewer parking requirements than office space, and lower regulatory requirements than hospitality, self storage is the unassuming workhorse of commercial real estate.**

Self storage facilities are ideally suited to small business owners looking to replace their existing business with one that requires lower operational costs. For such developers, self storage is appealing due to the flexibility of its operations: it's entirely possible for a more active owner to run the entire operation themselves, whereas someone else might set up as a franchise or use a third-party management service to take care of day-to-day operations while they wind down and build a retirement nest-egg.

Self storage also appeals to independent property investors. These facilities allow them to diversify their existing portfolio or develop a new business by offering reliable, recurring revenue combined with minimal ongoing costs. Existing property developers may choose to invest in self storage facilities when looking to expand their portfolio, or reinvest funds into self storage as a new form of specialist commercial real estate when divesting themselves of other investments.





Disclaimer

The information contained on this document has been provided as general advice only. The contents have bee prepared without taking account of your objectives, financial situation, or needs. Before you make any decision regarding any information, strategies or products mentioned, you should consult your own financial advisor to consider whether it is appropriate for your financial situation.

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Why self storage?

Self storage can be part (or all) of a sound and stable investment property portfolio. Customers come from a variety of backgrounds and the demand drivers are varied, which means risk is mitigated and spread. This means the industry is resilient to economic downturns and has provided steady, stable income for owners.



Originally called mini-storage, the self storage industry grew out of the U.S. warehousing industry in the 1950s.

Larger commercial and industrial warehouse businesses started offering smaller units for individuals and small to medium enterprises (SMEs). The industry took its first Australian steps in the 1970s and has seen steady growth since then.

One of the key differentiators of self storage as an investment are the reduced overhead costs – they operate with fewer staff, have minimal fit out, and usually require less maintenance. This means that returns on self storage can easily outperform standard commercial property investments.

Self storage demand drivers

Downsizing

Decluttering

Divorce

Death

Diaspora

Importantly, these drivers tend to remain constant, even during difficult economic times.

TRIGGERS

Traveling	24%
Change In Employment	14%
End Of A Relationship	14%
Moving Overseas	12%
Start Of A New Relationship	10%
Death In The Family	9%
Elderly Family Member Moving Into Home	8%
Birth Of A Child	7%
Elderly Family Member Moving Into Care Facility	4%
End Of A Relationship	4%
Kids Returning Home	4%
None Of The Above	32%

What is the return on investment?

In recent years, self storage has generally outperformed more traditional commercial asset classes and was one of the industries to grow and perform well during the pandemic[5]. Indeed, the self storage industry has enjoyed exponential growth, seems largely recession-proof, and is estimated to be worth $20 billion across Australia and New Zealand.

With annual growth rates of 15 to 20 per cent during 2023 in some markets[1], the industry has attracted strong interest within the investment community. Evidence shows that the revenue growth is now stabilising, although it still surpasses inflation.

Self storage facilities also continue to show strong long-term stability. Occupancy rates have remained high since the beginning of the decade are currently at 87% across Australia and New Zealand including facilities still in the let-up period[2].

Cushman & Wakefield's Self Storage Performance Indicators[3] tracks the performance of 280 self storage facilities across major cities in Australia an Auckland. Analysing the data, two cities have emerged as frontrunners in terms of revenue growth – Adelaide, with an exceptional growth rate of 14 per cent in the 12 months leading up to 31 March, 2023, and Sydney, with a commendable growt rate of 12 per cent during the same period. Both cities have showcased remarkable resilience and sustained demand for self storage services.

Perth and Brisbane have also experienced significant annual growth rates, reaching eight per cent.

Yields are also strong. In 2021 CBRA reported effective yields of between 5.5- 6.5%[4], which comfortably eclipse those of other property classes. In addition, unlike other commercial property sectors, occupancy agreements for self storage facilities do not commonly feature incentives. This ensures investors obtain true effective rental casflow



[2]024 "Understanding self-storage investing: a comprehensive guide", Commercial Real Estate
[2]2023 "The unexpected self-storage boom", Property Council of Australia
[3] 2024 "State of the Industry 2024", Self Storage Association of Australasia, p39
[4]2024 "Self storage performance indicators, September 2024", Cushman & Wakefield
[5] 2021 "The rise and rise of Australian self-storage", CBRE

Recent industry performance

While the self storage industry is still maturing, CBRE Australia's Head of Commercial Valuations said it was clear many investors were coming to view self storage as "one of Australia's most robust property classes for investment"[6].

The Self Storage Association of Australasia (SSAA) estimates that there are 2870 self storage facilities across Australasia, with 2265 in Australia and 605 in New Zealand7.

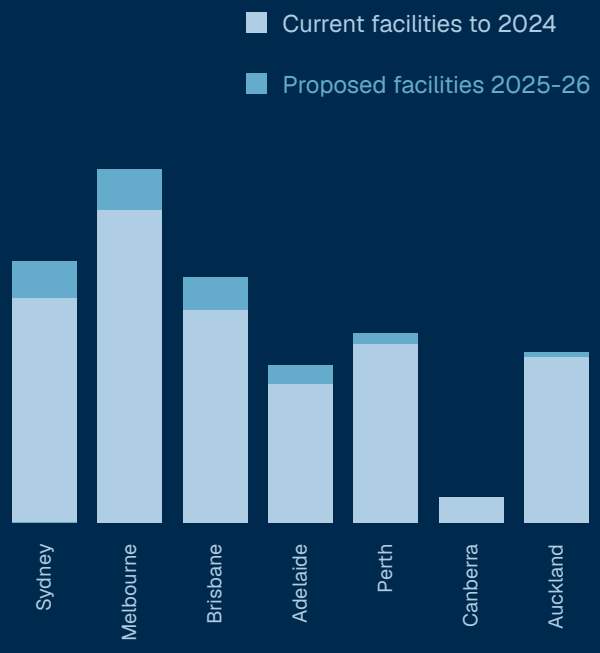
More than 6.57 million square metres of net storage area hold the possessions of more than half a million self storage customers.

Strong fee rate increases are fuelling revenue growth, with the average storage fee rate across Australasia in the region of $360 per square metre per annum in 20238. This represents an increase of 13% from State of the Industry 2022 results at $318 sqm per annum.

The estimated annual turnover for the Australasian self storage industry is more than $2 billion and revenue per available square metre (RevPAM) was recorded at $330 per sqm across Australasia[9]

Current and Proposed Facilities

Sydney	Current facilities to 2024	Proposed facilities 2025-26
Sydney	216	38
Melbourne	333	47
Brisbane	200	36
Adelaide	124	14
Perth	172	10
Canberra	24	1
Auckland	138	7



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Comparisons to other asset types

Self storage facilities are usually freehold properties, rather than leasehold. This gives the owners security and allows them to accrue capital gains. Most investors purchase a complete facility.

These types of facilities need less maintenance than office space and require both fewer staff services compared with retail or other commercial property. With uncomplicated floorplans and fit outs largely comprised of non-porous surfaces and materials, they are easier to maintain than offices, retail, and hospitality businesses. They also have lower foot traffic compared to retail, offices or food services, meaning materials and surfaces last longer and are less trend-focused.

While self storage facilities do require easy vehicle access and proximity to major roads, customers generally don't need to access their units frequently, so facilities can be built further from the CBD where land is cheaper.







Retail properties

While retail property have traditionally been attractive investments, the sector has become more volatile in recent years as bricks-and-mortar retail competes with ecommerce and the growth of big- box retailers limiting the development of smaller, specialist retailers. Retail also requires proximity to areas with high foot traffic, commonly only found in the CBD.

Offices

The market for commercial office spaces continues to be uneven, especially in major cities, which haven't fully recovered from the pandemic. CBRE's report on the Sydney CBD Office Figures for Q3 2024, says the overall CBD vacancy rate ended the first half at 11.6%, which marked a decline of -60 bps from year-end 2023[10]. Office space also requires substantial transport connections or CBD proximity to be effective, a requirement that self storage lacks.

Hospitality

Although food properties within the retail sector have high occupancy rates, maintenance costs are high, and property management can be intensive and time-consuming. Self storage facilities also don't need specialist fit outs such as kitchens or food service areas. Like retail, food outlets also commonly require high amounts of foot traffic or large population clusters to be successful.

[10] 2024 "Sydney CBD office figures Q3 2024", CBRE

Who uses self storage



Personal use

> **While people of all ages, stages and family units use self-storage, the biggest users are Gen X (40-59 years old) and Baby Boomers (60-74 years).**

Traditional drivers of demand for these facilities include death, divorce, downsizing, and relocation to or from interstate or overseas. SSAA's State of the Industry Report 2024 identifies moving house, decluttering and related activitiesas being the top reasons for using self storage.

Importantly, these drivers are traditionally resistant to economic headwinds. In some cases, they're actually buoyed during tough times, such as when job loss and limited housing availability force people to either downsize cause a diaspora from cities to the regions.

Relationship breakdowns often trigger the need for storage options while the affected parties relocate, especially in the case of long-term marriages facing divorce where couples are both moving into new properties.

Gen Xers are in the prime of their renovation years, often using self storage facilities while undergoing improvements to their home. They also downsizing as their adult children leave home and they start decluttering the family home. In urban areas, self storage can also become popular with hobbyists who want space to store items such as vintage cars or motorbikes, craft materials, boats or kayaks, or sporting goods such as bicycles, surfboards, and skis.

Older people and Baby Boomers often turn to self storage when downsizing from the family home to an apartment or smaller house.

They also use the facilities when moving to retirement or aged care properties, or their families might use self storage after their death, while the estate is being settled.

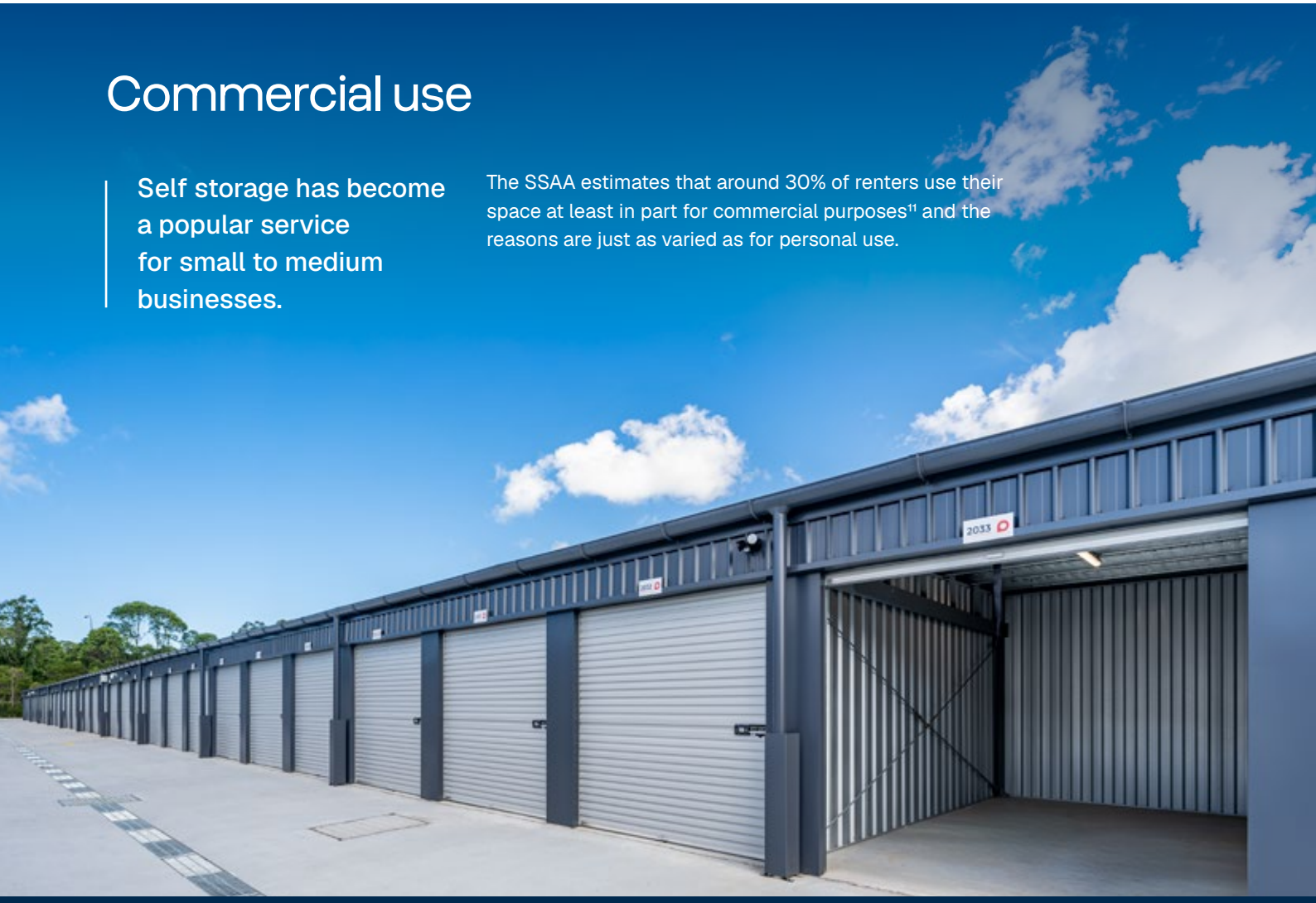
Moving house generally often triggers a demand for self storage, whether it is a temporary need between homes, or if an individual is moving interstate or overseas for a period of time. In addition, as house prices have continued to grow, many people have chosen to downsize from a larger house that might have otherwise provided additional on-site storage. Instead of a free-standing house with a spare bedroom and a two-car garage, some find it's cheaper to buy a smaller apartment and rent a 3×3m storage unit for long-term storage.

Specialised storage such as climate controlled units, boats/caravans storage and commercial offerings have their own defined markets, providing revenue from ancillary sources.

Commercial use

Self storage has become a popular service for small to medium businesses.

The SSAA estimates that around 30% of renters use their space at least in part for commercial purposes[11] and the reasons are just as varied as for personal use.



Some small retailers to secure their archival documents and excess stock without taking up the limited floors space in a retail shop. Similarly, the growth of ecommerce has seen a corresponding growth in these small enterprises using self storage units for storing and dispatching stock.

In other cases, storage units have been used to store building materials, tools, machinery, and even been used as aworkspace in its own right. This has in part led to the evolution of self storage facilities from single-use to multi-use facilities; offering office space, meeting rooms, and even specialist cellar door experiences.

[11] 2024 "State of the Industry 2024", Self Storage Association of Australasia, p62

Where to develop

Like all real estate investments, location is key when it comes to buying or developing a self storage facility.

Traditionally, self storage properties in urban or metro areas are bigger facilities (often multi-level) but offer smaller unit sizes, contrasted with larger units in smaller (often only single-level) facilities in suburban fringes or regional centres.

Generally, the location will determine thecost of units, so major capital cities will command higher prices. However, large regional centres are growth areas for self storage and are often under-serviced, providing investors with great opportunities where land is more affordable.

The SSAA State of the Industry Report 2024 suggested there was a two-speed market dynamic emerging between regional andmetropolitan areas, with strong demand and limited supply in regional markets, where facilities are often operating with waitlists. In contrast, the association says, some metropolitan markets are likely to face short-term trading pressures, as increased new supply sets a more cautious outlook.

Ideal locations include

- Being in close proximity to a major road artery for access and signage visibility
- Blocks with easy vehicle access, especially for cars with trailers or moving vans
- Adjacency to growing population centres such as new suburban subdivisions
- Proximity to complementary businesses such as petrol stations or big box retailers





Metropolitan properties

Metropolitan properties throughout Australia continues to dominate the market, especially along the east coast, according to the SAA. The 2024 report says that 85% of customers booking online live in metro/capotal city areas.



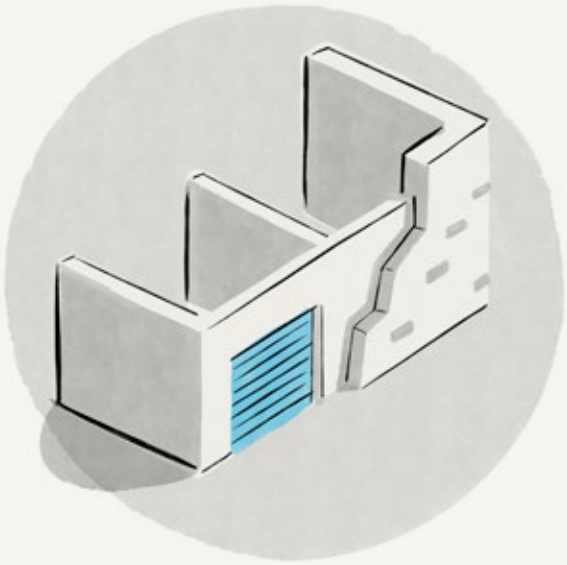
Regional properties

Reigional properties ofthen have limited supply when it comes to self storage, which has led to strong demand and favorable returns on facilities.

New builds versus conversions

When looking to invest in a self storage facility, it's important to evaluate your long-term goals to help you decide whether to build on a green site or buy an existing building and converting it to self storage.





New builds

If you plan to retain and operate the property yourself, a newly constructed facility (like any new construction project) is going to take significantly longer to get up and running and turn a profit as you will be responsible for coordinating the planning, approvals, and construction processes from scratch. However, building a new facility will allow you to oversee the choice of location, minimise restrictions on the building's engineering, and completely optimise the architectural design for self storage.

Conversions

Conversely, acquiring an existing building can be a much faster and less expensive route to market, meaning you can start earning income faster. Existing buildings often have major architecture, engineering, and compliance already completed. The blocks have already been prepared so sloping or fill sites aren't an issue, and they're often already located in well-established urban areas which helps guarantee demographic appeal.

However, you'll be designing around an established space; pre-existing columns and other structural components can limit the efficient use of space, which will impact let lettable area and, in turn, affect long-term return on investment.

Operational considerations

Modern self storage facilities have historically low operating costs. Staffing demands are low – facilities can have a single on-site manager, or sometimes can even be fully automated. The increased maturation and penetration of cloud- based management software, as well as the growth of ecommerce generally, allows a single manager to easily operate a single site, operate multiple sites, or even facilitate completely remote autonomous sites. The reduced labour costs are significant, particularly when businesses regularly cite labour costs as one of their biggest expenses. The Australian Bureau of Statistics (ABS) reports that total labour costs incurred by employers during 2015- 16 were $760.9 billion. Employee earnings accounted for 87.3% of total labour costs12.

Internal fit outs are minimal. A typical self storage facility has a small front office for an on-site manager, and the remaining floor space dedicated to storage fit out. This includes the corridor and unit partition

walls, roller and swing doors to the storage units, lighting track, and protection/ finishing elements such as buffer rails and corner protection. While some multi- purpose producst exist, the best are designed specifically for the self storage industry. They are made from folded sheet steel and have a narrow footprint. This makes them lightweight and easy to install and maintain, maximise the total lettable area available, and offer the high structural strength needed to safely secure each storage unit.

It is up to the owner as to whether they would like self-manage the property, or use third-party management such as Storage King or Kennards. Self-management means that overall operational costs are reduced, but it requires a commitment to marketing, managing, and maintaining the property.

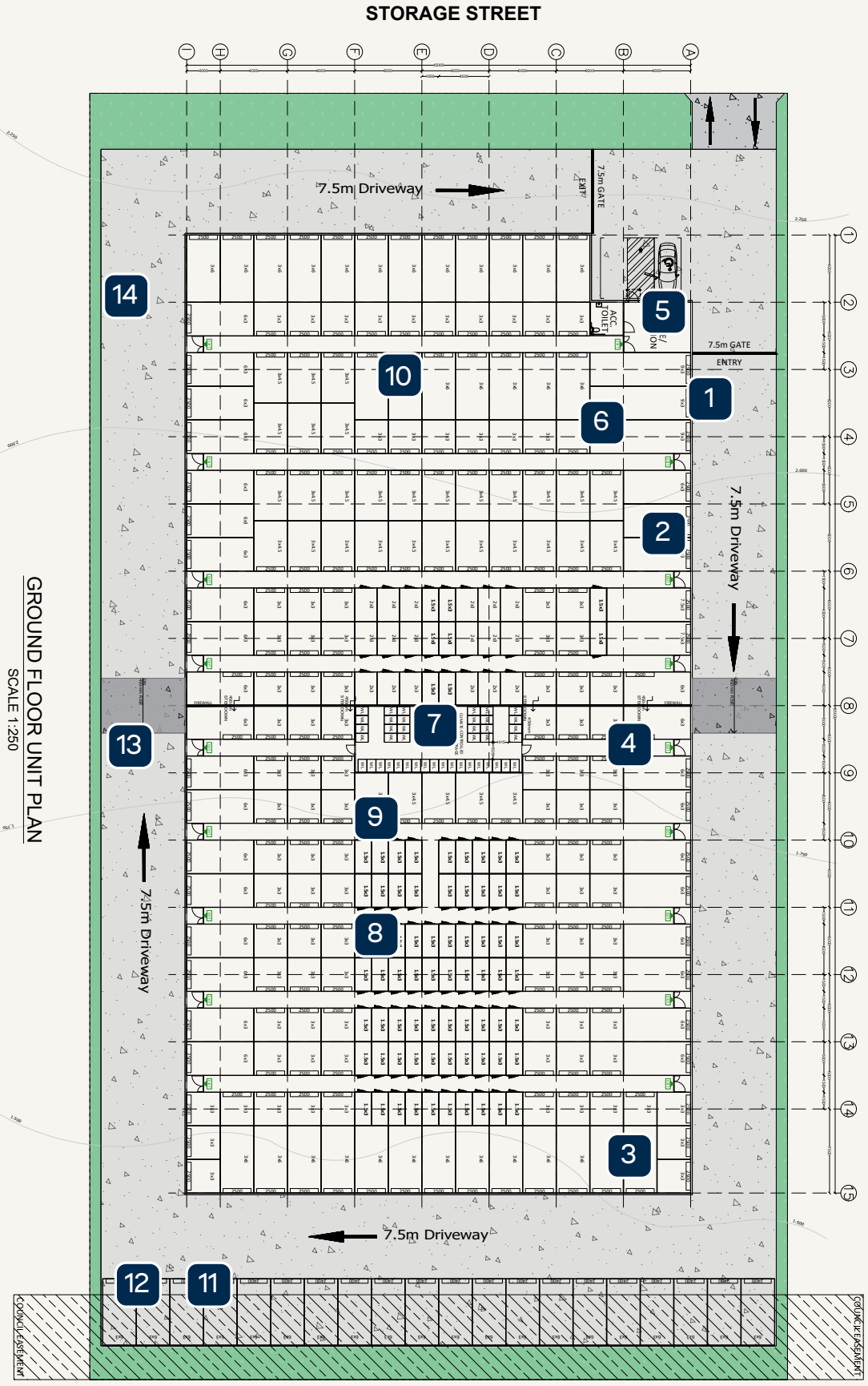
Self storage facilities can be sold if you wish to realise your investment at a later date, so consider whether you are looking to build with the intent to sell the property to another operator in the future.

Unlike other commercial property sectors, occupancy agreements for self-storage facilities do not commonly feature incentives. This ensures investors obtain true effective rental cashflow: a quality that is also viewed favourably by lenders.



> **“The business model fitted perfectly with the setup, being hands-off. It’s been hands-off for the last 27 years. However, when building a new complex, we put an office [on the new facility site] and had direct involvement in the management. We took the other site off the real estate agents, and it’s all managed within our office now.”**
>
> Facility owner, regional NSW

What success looks like



GROUND FLOOR UNIT PLAN

SCALE 1:250

1. Gates that retract into the building provide easy facility access while minimising the amount of space the mechanism takes up.

2. 1A 7.5m wraparound driveway provides ample space for drive-up units around the building's circumference and is wide enough to allow two vehicles to pass each other.

3. Not all drive-ups need to be 6×3s. Some smaller 3×3s can be positioned around the building perimeter to be let out at a premium price. It's as true in storage as it is in other property types: location, location, location.

4. Fire compartmentalisation is a key consideration in the facility design process. Self storage facilities are generally considered class Cbuildings Australian National Construction Code (NCC). Under this classification, fire compartments for a singlelevel building are 2,000m². However, these rules can vary depending on a number of factors including the geography, services available, and local regulations. You should always engage a specialised fire engineer for your facility to ensure your designs are fully compliant.

5. Advances in monitoring and access technology have made fully-remote facilities very achievable. However many customers still benefit from the personal touch a manned site office brings. An on-site manager can offer tours, help with move-ins, and adds an additional layer of perceived security for customers. Offices also provide retail space for customers' urgent needs, such as a box shop, packing materials, and trailer rental.

6. Even regional sites benefit from offering a varied unit mix. While some customers will still need 6×3 or larger units, shrinking residential block sizes and smaller overall family units mean many customers will benefit from smaller - and therefore more economical - unit sizes. This works out well for developers too: the rule of thumb is that a half-sized unit is worth two- thirds the rent. Conversely, larger units - 9×3 and 7.5×3, for example, - offer specialist storage for trades, small business, and recreational vehicles.

7. Even regional builds can benefit from specialist storage - if not wine storage, then gun lockers or similar heavy-duty vaults. Regional centres often cater to a wide variety of customers, so it's worth looking for these opportunities during your feasibility studies.

8. It's common practice to have smaller units deeper inside the facility. This means customers who rent the larger units have less distance to travel with bulky goods like furniture.

9. Internal secondary corridors can be useful for helping tenants - and site managers - navigate the space. They do require sacrificing lettable area in favour of customer experience though, so it's worth considering if the trade-off is worth it.

10. Interior corridors are usually 1.5m wide. This allows enough space for trolleys and wheelchairs to manoeuvre while not compromising on lettable area. This width also works well with folded corridor lighting tracks. These reflect light inside storage units, illuminating unit interiors without the expense of having light fittings inside each unit. Larger facilities may have a main corridor 2m wide with narrower 1.5m tributary corridors.

11. Demountable buildings like Smartsheds are useful for adding additional lettable areas that would otherwise prohibit building permanent structures.

12. Demountable storage containers are useful for adding additional lettable areas that would otherwise prohibit building permanent structures. Once the domain of repurposed shipping containers, modern storage containers are purpose built for ease of transport, quick assembly, and high-quality design.

13. Even regional sites benefit from offering a varied unit mix. While some Sloping blocks prohibit the use of external- facing roller doors. In these cases, the doors should be positioned in internal corridors.

14. Single level buildings should have a minimum eave height of 2850mm. This allows externally- facing roller doors to have a height of at least 2400mm, which is high enough to allow vehicles to back into drive-up units.

The experts you'll need

As a specialist commercial property asset, investing in self storage facilities should be evaluated by industry experts and those with a thorough understanding of the opportunity and your personal financial needs.

Financial advisors

Talk to your accountant or advisor about the best way to fund your building project, whether it is a self-managed facility or will be managed externally.

Feasibility consultants

These consultants are optional but recommended to help assess the viability of a site, especially in an area where you might be unfamiliar with the local demand or any existing facilities. A feasibility consultant will examine demographics historical trends, and projected demand.This info can be synthesised with, and fill the gaps in your own local understanding.

Facility layout and design consultant

A self storage design expert such as Storco will help you develop the best layout and floorplan for your self storage project. An expertly designed facility layout serves multiple purposes. It maximises NLA (net lettable area), enhances the customer experience, and ensures you have a high-performing mix of unit sizes and specialist features.

> We did the design of the exterior of the building then we approached the Storco team for the unit layout and all the internal fit out. They helped to put it all together and maximise the floor area that we had. it all worked out well in the end."

Matt Wynn, Storaway Self Sorage Somersby





Architectural and engineering consultants

Experienced and knowledgeable consultants can assess the site and any plans to ensure that is both structurally sound and well designed.

Head builder

A well-chosen builder can oversee building requirements such as land preparation, concrete slab installation, or renovations if you are building on an existing site. They will also coordinate sub-contracted trades to provide landscaping, plumbing, and electrical services.

Internal fit-out provider

Fit out providers such as Storco manufacture specialist materials for your facility to ensure it maximises long-term returns and maintains long-term value. The right storage partitioning productrs offer structural strength, long-term stability, and easy maintenance, all while having a narrow profile that maximises lettable area.

Security

Security is an important feature of all self storage facilities and, when installed correctly, can minimise insurance costs and provide peace of mind to tenants. You will need visible and effective security, including gates, cameras and motion systems, for the developer and the tenants. You can also invest in electronic locking options that tie into management software, log access records, have deeper security integrations, and allow tenants to selectively share access and allow remote access.

Facility management software (if planning to self-manage)

Solid software will streamline the bookings and tenant management process. It can also minimise losses from non-payments, and integrate with your website for easy/ contactless bookings.

Development timeline

Development timelines vary from project to project and location to location. The following timeline is a guide only; you should engage local experts such as town planners, engineers, and architects to ascertain what are the expected approval and construction times in your local area.

Site evaluation and feasibility studies

A thorough site evaluation should be undertaken before any construction begins, including a survey and report on issues such as drainage and soil, as well as confirmation of the land zoning. This part of the process should include an evaluation to ensure that your project is financially viable, consulting with finance and feasibility partners to ensure you have identified a suitable location.



Design process

4-5 MONTHS

Designing a self storage facility is a specialised skill, encompassing an efficient use of the site, orientation and value-engineering the building specifications. A basic layout design can be developed as soon as a block is identified to aid in feasibility studies. Once the evaluation, finance, and feasibility checks are completed, a more thorough design can be completed, incorporating all the architectural and engineering requirements necessary to acquire council approvals and commence construction.



Council approval

3-6 MONTHS

The amount of time required for council approvals can vary greatly depending on your local government. Town planners can be a useful resource to help navigate the specific development application / resource consent requirements of your local government and pre-empt possible delays.



Construction

4-6 MONTHS

The construction of the exterior represents the bulk of the construction work and is the most expensive undertaking in the project delivery. Thorough planning before construction can help reduce construction time and mitigate the delays from unforeseen problems such as poor weather. Generally you'll appoint a head builder, who will in turn engage and coordinate contractors to complete specific tasks such as internal fit out, pipedand wired services, fencing, and landscaping.



Handover

This period includes any last-minute compliance or building defects, as well as staff recruitment and training.





Interested?

If you are interested in adding a low-maintenance and revenue-stable property asset to your portfolio, speak to the experts at Storco about your next steps on the ladder to self storage investment – these can include sourcing a location and site, designing a suitable layout, construction costings, finding finance and taking it to market.



Glossary

Access hours

Some storage units have limited hours inwhich the contents can be accessed, but demand is growing for units with 24-hour access, which often involves electronic security systems and keyless entry.

Bleed period

See let up period.

Climate controlled storage

This is a specialised form of self storage, when storage units have their internal temperatures kept constant and regulated. This is particularly important for some goods, such as wine, certain produce, antiques, artworks, and archival material – all common items needing long- term storage. It is typically only a small section of the overall facility to minimise construction cost and ongoing power demand.

Drive-up unit

Any storage unit you can park your car next to. Most external units (ie, ones on the outer perimeter of the building) will be drive-ups, but many facilities include internal or covered driveways that allow more ground-floor units to be drive-ups. Drive-ups are desirable because they have the minimum possible distance of travel between a person's vehicle and their unit.

Let up period

The time between first opening the doors and hitting stable occupancy.



Occupancy rate

The number of units that are rented in a given facility, expressed as a percentage. Occupancy rates are one of the most commonly used metrics in the self storage industry to monitor overall industry performance.

Revenue per available square metre (RevPAM)

This is the rental return of a storage unit, divided by its net lettable area.

Ranch-style building

A style of single-level storage building where there are no internal units at all. Typically these are two rows of 6×3m

units arranged back to back. Ranch-style buildings are common in regional areas because they're easy and cheap to build and are comprised entirely of drive-up units. They do, however, compromis possible revenue because of their lack of a varied unit mix.

SSAA

Self Storage Association of Australasia. The peak industry body that represents the industry's interests to other industries and government. It provides advocacy, training, and resources for members.

Storage fit out

The products and materials used to construct the storage units in a facility. Typically includes corridor walls, unit partition walls, roller doors, swing doors, lighting track, and finishing options such as corridor and corner protections.



Storco.

Creating Better Spaces



ORANGE / SYDNEY / NEWCASTLE / WHANGAREI