Opinion Piece

Demand for self-storage assets heats up

> Self-storage investments across Australia have become increasingly popular among investors and owner occupiers alike as this asset class is generally affordable and delivers high occupancy levels.

Self-storage demand is booming in Australia as a culture of consumerism, e-commerce growth, shrinking living spaces and rising population drive demand from individuals and families for secure and convenient facilities for storing personal belongings.

Circumstances created by the pandemic have also played a part in the rise in demand.

Occupancy levels in self-storage units have been supported by changes in circumstances such as restaurants/cafes needing to remove tables and chairs for social distancing; space required for those now working from home; kids returning home or elderly family members moving in; downsizing of houses or moving areas due to employment changes.

Since the restrictions eased, we have continued to see a return to positive occupancy and strong capital growth.

The average rate per storage unit increased from $19,135 during the 2019 financial year to $22,152 in 2020 which was due to growth in the average unit rental rates and tightening yields. We're already seeing price increases of up to 5.0% this year.

Our analysis shows that market yields average 6.5%, tightening from 7% over a year ago.

Investment demand is expected to be robust throughout 2021. The after-effect of COVID-19 on the self-storage market is expected to be relatively mild long-term in comparison to the wider property market.

The self-storage industry is likely to benefit from existing storage contracts requiring prepayment which is typically a month in advance along with automatic payment options. There is also the potential for storage demand as a result of dwelling downsizing or business closures throughout Australia on the back of reduced population movement and rising unemployment.

Furthermore, demand from businesses requiring storage is reportedly increasing due to the growth in online retailing.

Over 2020, self-storage units faced a rough period with face rents being on hold, particularly around May to August.

Given the nature of self-storage with multiple small tenants, discounting was able to be applied to specific requirements and for a short period.

With continued strong investment demand buoyed by low interest rates and increasing demand from overseas investors, particularly for sizable portfolios, self-storage units will remain highly contested.

Ongoing development of new facilities and the ability of the industry to remain largely unaffected by pandemics will see the asset adapt to contactless or minimal-contact operations as well as typically being viewed as an essential service.