9 QUESTIONS FOR . . .

Paul Theodosiou, MD of Acucap Properties, on self-storage properties

Retail-focused Acucap Properties recently entered into a joint venture with Faircape and SA Self Storage Investments (Sassi) to develop a specialist portfolio of self-storage properties, making it the first JSE-listed fund to enter this sector. Why self-storage?
Self-storage is a recognised asset class worldwide. In the US, for instance, self-storage counters outperformed all other real estate investment trusts in 2011. In contrast, the SA industry is still small, with widely fragmented private ownership. So the opportunity is ripe to bring scale, quality and public ownership to the local self-storage industry.

Why has no-one in the SA listed property space entered the self-storage market until now?
The success of self-storage is not just about property – it's also highly dependent on the quality of the operators running the business. While there are some good small self-storage operators in SA, none has come to the market with the same array of skills and ability to roll out the product on a large scale as Sassi.

What is the current size of the SA self-storage market?
We estimate that there are about 220 facilities in SA with a combined value of around R5,5bn-R6,5bn. Ownership is widely fragmented, with only a handful of players owning five or more facilities. We believe the size of the market could easily double in the next 10 years.

What is Acucap's current exposure to self-storage?
Our joint venture will comprise 23 facilities valued at over R1bn, of which 11 are still either under construction, in the planning phase or under offer. Stores are spread across Cape Town, Johannesburg, Pretoria and Bloemfontein. At completion, the portfolio will have a gross lettable area of 166 000 m^2 and comprise some 14 150 individual self-storage units.


Hetty Zantman

Is the plan to list the self-storage portfolio as a separate entity?
Yes, but we would not want to list until all the assets in the portfolio were at or near full occupancy and generating normalised cash flows. If we closed off the listing portfolio this year, we would be unlikely to come to the market much earlier than 2014. Having said that, once we close off the listing portfolio, we will continue assembling a second tranche of assets (a so-called pipeline) that can be acquired by the listed company, which will give it an immediate scale boost.

What type of returns does self-storage offer compared to more traditional property sectors like retail, office and industrial buildings?
There is no reason why a listed self-storage company in SA shouldn't trade at the same income yield (around 7%-9%) as other listed property vehicles. Good quality self-storage units generally operate at occupancies in excess of 90%. In addition, distribution growth should beat inflation and the capital investment should appreciate or rerate in line with other listed vehicles, particularly as self-storage as an asset class gains scale.

How do rental levels compare with those of other real estate sectors?
Rental levels and growth rates compare favourably to other commercial property asset classes. Modern, top-quality stores in good urban locations can attract rentals in excess of R100/m^2, whereas older stores in less prime locations can find their rental ceiling at around R55/m^2. Until the SA market reaches saturation, rental escalations should move at or slightly ahead of the rate of inflation.

Who rents self-storage units in SA?
Self-storage is typically used about 70% by the domestic market and 30% commercially, though this will vary from one facility to another depending on location. Unit sizes vary from as small as 3 m^2 to 18 m^2.

What are the key risks posed by an investment in self-storage?
The lease profile is obviously completely different from that of an industrial or office building. The latter can have a single large tenant, whereas a self-storage facility will have a collection of small individual tenants. However, while the composition of this tenant base keeps changing as people move in and out, the overall level of occupancy for mature stores tends to remain around 95%. The wide diversification of tenants means that the risk is low, provided the store is well managed. The risk profile is actually diminished by the fact that there is no big single tenant exposure.

Joan Muller