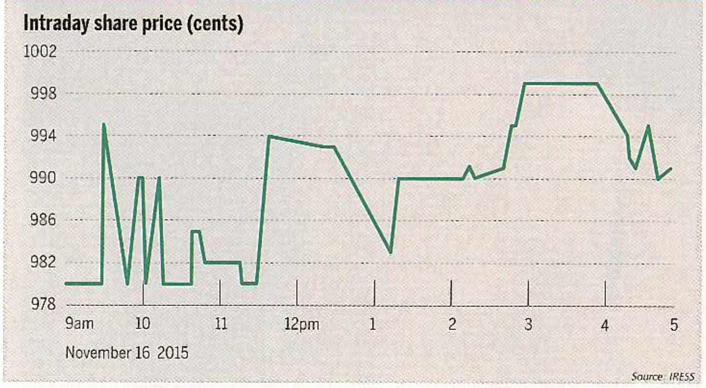
PICK of the MONTH

Share:	**STOR-AGE**
JSE share code:	**SSS**
Share price:	**R10**
Market cap:	**R1,4bn**

STOR-AGE PROPERTY REIT



The property listings boom continues uninterrupted, with no fewer than 10 new real estate counters having made their JSE debut over the past 12 months alone. And there's more to come. Clearly, investors will need to be far more cautious about which they support, as there will undoubtedly be some of inferior quality — this is generally the case when seemingly every man and his dog bring a new listing to market.

One of the new real estate investment trusts (Reits) that differentiates itself from the rest of the crowd is Stor-Age, SA's biggest owner and operator of self-storage facilities. The company, which listed on November 16, is the first JSE-listed Reit besides hotel fund Hospitality Properties that does not offer the usual exposure to the office, retail or industrial property sectors.

In fact, Stor-Age is the only counter among the recent spate of new property listings that interests Grindrod Asset Management, says chief investment officer Ian Anderson. "We have been investing in self-storage Reits in the US for quite some time and we like the fundamentals of the business. Maintenance capex is of the lowest among all property types, which contributes to higher returns for investors over time. Globally, the sector has been among the top performers and we would expect a similar experience in SA."

Others clearly support Anderson's view, given the fact that the company's IPO earlier this month was greatly oversubscribed. It prompted Stor-Age to increase its initial capital raise from a targeted R820m to a final R1,020bn. That's quite a feat considering how many new (and existing) property counters are vying for investment capital these days to fund their growth ambitions.

Stor-Age listed at a forward dividend yield of 8% with forecast dividend growth of 10,8% in the first financial year.

Management forecasts annual dividend growth of an average 10% over the following three to five years. That's attractive if one compares it with a dividend yield of around 6,5% and expected growth of 6%-8%/year for the property sector as a whole.

> The difference between self-storage and other sectors of the commercial property market is that space cannot be pre-let

Stor-Age was founded 10 years ago by Cape Town-based Gavin Lucas and Steven Horton, both chartered accountants, while they were still doing their articles at KPMG and EY respectively. Lucas's brother Stephen, also a chartered accountant, who was living in London at the time, and their retired father, who has a property administration and construction background, joined the business soon afterwards.

The portfolio was built from scratch, taking it from one newly developed facility in 2006 in Cape Town's Edgemead to 24 completed self-storage parks today. The listed portfolio is now valued at R1,3bn and features properties in Cape Town, Johannesburg, Pretoria and Durban. Stor-Age CEO Gavin Lucas is confident that the portfolio value could reach R5bn within five years given socioeconomic trends such as urban density and increased numbers of households opting for apartment and cluster living with limited storage space.

"People's living and work spaces are becoming smaller and smaller, yet they are acquiring more and more stuff that they are emotionally attached to."

Events such as marriage, divorce, death, moving house or doing renovations also create natural demand for temporary storage facilities, says Lucas.

The company has first right of refusal to a pipeline of another 19 self-storage facilities (eight of which are already built) with a completed value of about R1,5bn, which are likely to be added to the portfolio within the next two to four years.

Lucas concedes self-storage units are often associated with dodgy areas on city outskirts. "But we focus only on secure, well-managed facilities close to our target market — mostly domestic users (80%) and SMEs (20%) — in upper-end residential nodes." Sea Point in Cape Town, Brooklyn in Pretoria and Mount Edgecombe in Durban are among them.

Lucas says the positive response from institutions, in particular to the prelisting capital raising, is encouraging, as it creates a much wider investor base than expected at first. It also underscores the level of demand for specialist, income-paying offerings that bring something different to the market, he believes. The R1,020bn of capital raised means that the company's initial gearing level is reduced to a low 10%, which leaves plenty of headroom to increase debt levels for growing the portfolio.

Lucas says the key difference between self-storage and other sectors of the commercial property market is that space cannot be pre-let. Leases are signed on a month-by-month basis, so it can typically take three to five years for a self-storage facility to reach occupancy levels of at least 80%.

"That's why we will add new facilities to the listed portfolio only once they have reached mature occupancy levels."

The average length of stay at Stor-Age's facilities is between 11 and 21 months.

Residential users require units of 12 m² on average, which cost about R1 000/month. IM

Joan Muller

Other companies analysed in this issue: Spur, Comair, Oceana, Value Group, Kibo Mining

See Pages 33-36 for these share analyses