Self-storage business seems to have a great future in store for it

Its red branding is popping up across cities and Stor-Age will form part of the JSE's listed property sector when it goes public this month. But does a self-storage property firm ring the bell for a property listings bubble? Business Times spoke to Stor-Age CEO and founder Gavin Lucas . . .

How do you present self-storage as an investment case? You've got month-to-month leases, so where does the security of income come from?

One of the key differentiators of self-storage is that when you develop a new property, [it's] 100% speculative. What I mean is that you cannot pre-let the space until the building is built. And a self-storage asset can take anywhere between three and four years to reach mature occupancy levels in the 80%-90% range.

Whereas the developers in, say, retail, typically, before they lay the first brick, would have secured some key anchor tenants, which de-risks those developments.

We own a portfolio of 43 properties and we've carved out the 24 most mature assets, which have stabilised occupancies, into the listed vehicle.

The balance of the portfolio is split between eight trading properties where the average occupancies are about 40% to 45% and the balance of 11 sites are either under construction or have town-planning approvals in place, or are going through the process.

While in theory our leases are as short as a month, on average we see across our tenant book that the average stay is 21 months. The residential or commercial user initially believes they are going to be storing for a very short time. However, our trading stats — in line with international Reits [real estate investment trusts] — suggest they tend to stay a lot longer.

Self-storage Reits have traded incredibly well through different economic cycles; 20% of our user base comes from the commercial sectors, typically SMMEs.

Now, a business will never do anything if there's no commercial imperative. For the residential user base, whenever there's a life-changing event, there's a need to store one's goods.

Our property strategy is compiled in five-year tranches. We wrote the first plan in 2009 to take us to 2015, and that plan was to develop a 40-property, R2-billion self-storage portfolio concentrated in South Africa's four main cities. We've achieved those objectives and been busy over the past 15 months developing our strategy to 2020.

And in the research project we did a profiling exercise to understand what our customer truly looks like. So while we thought we were trading in the top echelons of the middle- to upper-income brackets, the stats suggested something completely different: we have a significant component with household incomes of R16 000 or less. So those stats told us the potential for our product is a lot deeper than we'd suspected.

How did it all start?

I was 24 and busy with my accounting articles and my girlfriend at the time mentioned casually that a friend was looking to put his stuff into self-storage in the Cape Town region, but they were all full, weren't that cheap and were an incredibly poor offering.

I didn't really think too much of it, but fast-forward 12 months, my dad and I — my dad came from a construction background — identified a piece of land in a suburb in Cape Town where we wanted to develop a light industrial business park.

We stumbled across this concept of self-storage; we put the scheme together and it was incredibly successful and we realised we were on to something.

There was no hard research on the sector, so we took a fair portion of that upside from that first development and put it into research and spent time with the industry association in the US.

We came back to South Africa and completed a study in 2007 where we identified every single self-storage property in the country. That was a watershed moment for us because the data brought a lot of confidence about the sector.

When did Acucap [a formerly listed property firm] come in?

In late 2009, we were approached by a private property developer called Faircape to develop a self-storage property . . . Acucap was a shareholder in that property as well, and that was the starting point of the joint venture.

Why go public?

Two things: we're following in the footsteps of our international peers. Second, we believe it's an opportune time to strengthen our balance sheet . . . we might have some volatile times ahead as interest rates come off their all-time lows; by taking a conservative approach to gearing, we will be well positioned to weather any storms.

We foresee that we will grow significantly over the next five to eight years and it is a capital-intensive business. While Acucap were our backers prior to them going into Growthpoint, over the past 12 months Growthpoint have continued to be incredibly supportive and tabled an offer for us to remain as an in-house division. But our own board believed the best route was to [list], where executive management and our board would be a lot closer to the business.

What's the response been?

We've had an incredibly positive response — better than what we were expecting.

● *Talevi is a BDTV presenter*