

Global Expansion

Opportunities outside of the U.S. exist but require patience and due diligence.

By Laura Williams-Tracy

The American phenomenon of self storage is propagating throughout the world as developers find opportunity in rapidly developing countries and high-density urban areas.

Seemingly nowhere on the globe is self storage growing as rapidly as it did in the United States in the 1970s and 1980s; but developers in Europe, Asia, Central and South America are taking lessons learned in the U.S. to hone the business pro forma as they carefully navigate the challenges of scarce real estate, irregular development standards and in some cases low consumer awareness of the product.

Most are making steady, if not rapid gains, providing convenient and affordable storage in an increasingly crowded world.

“Europe is not the Wild West,” said Matt Reidy, a partner with Fremont Realty Capital in San Francisco. Fremont is the private direct investment arm of Fremont Group, the investment office for the Bechtel Family. “It’s not a fast-growing market. You have to be tactical and you’ve got to have great local people working for you. We see good long-term opportunities but nothing short term. It’s a lot of hard work and you have to be well capitalized and very patient to succeed.”

Scarce Real Estate

With opportunity available for those who study the market, Fremont only invests with leading operating partners who already have a track record.

In Japan as in Europe, strong residential real estate markets compete with self storage for available land. Quraz in Japan sees strong demand for its 48 locations. Photo courtesy of Quraz



Fremont's two European platforms include MyPlace Self Storage (an Austrian self storage company operating 36 high-quality stores, and the largest operator in Germany, Austria and Switzerland) and Bluespace (the largest owner and operator of self storage facilities in Spain with 21 stores).

Fremont acquired a large share interest in MyPlace in 2012 and has assisted the company founders' expansion. MyPlace pioneered storage in German-speaking markets. In 2014, Fremont acquired 100 percent of Bluespace, which has dominant market positions in Madrid, Barcelona and Valencia.

Reidy says the real estate markets in Germany, Austria and Switzerland are challenging because real estate pricing has reached or exceeded pre-2007 peak highs. "The real estate pricing cycle is at a high and it's difficult to find new store development sites that make sense. This is true of many markets in Europe, which have recovered quickly over the past two to three years."

The same economic recovery is on in Spain. "We are adding new stores to our current markets to build on our leadership position there," Reidy said. "We see steady growth in new store openings in the future for the BlueSpace platform."

It's a similar story in Japan, where real estate presents the biggest challenge.

In September 2013, Evergreen Real Estate Partners LLC acquired Japan's largest self storage company, Quraz, and made plans to grow the network of 48 Quraz locations in 10 cities. Growth in Japan is limited by supply, said Stephen Spohn, president and representative director of Quraz.

"As supply grows it's quickly absorbed. So the biggest trend impacting growth is the difficulty of finding locations that 'pencil out' to our return expectations, particularly in this relatively hot domestic real estate market," Spohn said. "We've estimated that the total market capacity grew by six percent in 2014,



My Place is the largest self storage operator in Germany, Austria and Switzerland. California-based Fremont Realty Capital has invested heavily in the platform, including this store in Margareten, a district of Vienna. Photo courtesy of Fremont Realty Capital

following five years of average nine percent compound annual capacity growth.

"Factors that are driving demand growth are the ongoing migration of people to the largest cities, small living spaces, and the fact that Japanese are relatively healthy consumers and need space for their personal property," he added.

Spohn said the Japanese storage market is in its relative infancy and market penetration has a long way to go. "There are no areas that we believe are saturated," he said.

In the United Kingdom, The Big Yellow Group, PLC, sees great opportunity in London, but CEO Jimmy Gibson, who with two partners founded Big Yellow in 1998 and converted it to a REIT in 2007, said finding land in Europe's truly international city is the biggest challenge.

"Trying to expand Big Yellow's size in London is extremely difficult at the moment," Gibson said of the 80-store chain. Competition for land is intense, with planning laws favoring residential developers with the aim of providing enough housing for the

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In 2014 Fremont Realty Capital acquired Bluespace, including this store in Sant Just Desvern, Spain. Photo courtesy of Fremont Realty Capital

growing population. “The ability to open stores in central locations is very difficult.”

But with London’s high-density population a big draw, Gibson said Big Yellow is considering partnering with a residential developer to include storage as part of an apartment building.

“If someone is building a tower, it’s more expensive to go down but that’s space that residential doesn’t put a high value on because it doesn’t have natural light,” Gibson said. “Increasingly the trend will be to look to more complex and innovative mixed use developments to execute in zones where all the action is.”

Big Yellow has such plans for a 1.5 acre site in Battersea, South West London, where it owns a 34,000 square foot store.

“This is a first example of where we would look to combine self storage with taller residential,” Gibson said. “It’s an example of having to be a little more inventive.”

Ingenuity Builds Business

In less developed markets, MetroStorage International is relying

on imaginative solutions to help build awareness of self storage as the solution to crowding in high-density cities.

In March 2015, MetroStorage International’s Brazilian storage platform, MetroFit, opened the first purpose-built storage facility in São Paulo, Brazil’s largest city. It’s the second MetroFit in São Paulo.

“Our challenge is that knowledge of self storage in the local Brazilian market is virtually nil,” said Jay Harron, president of MetroStorage International.

To educate potential customers about the convenience and affordability of MetroFit, the company launched a digital, print and social media campaign and added a few novel methods to get in front of customers. Most Brazilians buy fresh bread every day. MetroFit teamed up with convenience stores close to the newly opened site to have fresh bread wrapped in yellow bread bags with the MetroFit logo. Shortly after the opening, Harron said two men with the yellow bags came to the store to learn more.

“We try to be as creative as we can to drive customers to the store. If we can get them to the store, then there’s

a good chance that we can convert them to customers,” Harron said.

Homebuyers offer another potential customer. MetroFit has partnered with residential developers to be at their sales launch meetings to talk about how home buyers can store some of their extra belongings at MetroFit. Often Brazilian households will rent two apartments—one to live in and one to store their belongings. Others use rental companies that store their items far away from their apartment.

“The concept of flexible, affordable storage that people can access whenever they want is a new thing in Brazil,” Harron said.

Central America offers opportunity for growth, but developers must be ready to react to political instability, be tenacious in finding land, and work with governments that don’t have regulations for building self storage.

Economic growth in some Central American countries—as high as 2.5 percent to 7 percent—has led to robust self storage growth in places such as Panama and Costa Rica, said Federico Rolz, who owns and operates nine self storage facilities under the brand Mr. Bodeguitas in Guatemala, El Salvador and Costa Rica.

“Small businesses are doing well and multiplying,” Rolz said. “Self storage has provided these businesses with a great way to store their belongings in a safe and accessible manner. It’s a way for small businesses to keep their costs lean and controlled.”

With little demographic and business information available to measure business opportunity, Rolz said predicting growth is complicated. He explained that finding land takes time and resources. Compounding the challenge, government officials don’t really know what self storage is, which makes securing a building permit a different experience from project to project.



Small businesses are growing in Central America, as evidenced by Mr. Bodeguitas’ nine stores in three countries. Photo courtesy of Mr. Bodeguitas

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“Since there are no specific criteria for self storage development, one could face some requirements that could really limit the feasibility of the project,” Rolz said.

Those sorts of on-the-ground uncertainties make local partnerships critical to success, investors said.

Going into a foreign country means you must first find the “magic sauce,” which means finding reliable and ethical local partners, Harron said. MetroStorage found that partnership with TRX Realty in São Paulo. TRX is a developer and fund manager that focuses on industrial and commercial real estate throughout Brazil.

Despite high lending rates in Brazil, with that partnership in place, Metro is very bullish on Brazil, which has fewer than 100 storage facilities in a country of more than 200 million people.

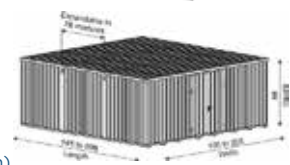
Reidy agreed that his firm’s investments in Europe were made with existing platforms with a proven history and an ability to navigate local issues.

“You need experienced local people to drive expansions and manage the myriad of complexities associated with acquisitions, entitlements, development, construction management and operations,” Reidy said. “God help anyone who wants to come and compete in these markets. It’s difficult in the extreme without an existing operating company.” ❖



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