

MARCH 2017
SINGAPORE RESEARCH INSIGHT

UNCOVERING THE DRIVERS BEHIND SINGAPORE'S SELF-STORAGE INDUSTRY



EVOLUTION OF SELF-STORAGE INDUSTRY

The concept of self-storage, also known as ‘Do-It-Yourself’ (DIY) storage, was first introduced to Singapore in 2003. It allows users to lease storage space of varying spaces, to store their goods and belongings in specialised and secured facilities on flexible lease terms. While market receptiveness started at a low pace during its early days, there is growing awareness among users along with changes in lifestyle, personal space constraints, and through the marketing efforts by prominent industry players in recent years. **Today, self-storage is widely perceived as an alternative space solution – an extension to the existing living and working space in response to push factors such as shrinking living space, rising hobbyist culture, increasing rent and business operation costs, and the burgeoning e-commerce trade.**

With growing popularity of self-storage space among end-users, new entrants are seeking to venture into the growing market. To date, there are about 27 self-storage operators with more than 80 facilities in Singapore from an estimated eight operators five years ago. Six of the existing operators are identified as major operators¹ with Lock + Store Self Storage (Lock + Store) having the most facilities under its operation. With the expanding supply and evolving needs, understanding the demand changes of the self-storage industry becomes ever more essential for existing and potential industry players.

What has been the evolution in demand of self-storage spaces in Singapore? Knight Frank, in collaboration with Lock + Store Self Storage (“Lock + Store”) and Republic Polytechnic, seeks to uncover the insights into self-storage users, and to identify the industry’s future growth prospects. More than 200 self-storage end-users were interviewed on site across Lock + Store’s island-wide facilities, and their responses were compiled end 2016. This paper aims to address the following trends:

“Today, self-storage is widely perceived as an alternative space solution which functions as an extension to the existing living and working space.”

01.
Who are the typical users of self-storage facilities?

02.
What drives the demand for self-storage space?

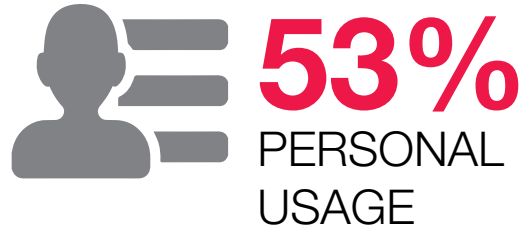
03.
What are some of the key considerations by end-users when they select a self-storage facility?

04.
What are the growth prospects of Singapore’s self-storage industry?

¹Major operators are defined as those with ownership of at least three self-storage facilities. Some of the major self-storage operators identified are Lock + Store, Storhub, Extra Space, Work + Store, The Storage Place and Urban Space.

TYPICAL USERS OF SELF-STORAGE FACILITIES

Who are the typical users of the self-storage facilities? From Lock + Store's operating experience, self-storage space is widely used by individuals and households for personal purposes as opposed to business use. Our survey showed that the proportion of end-user respondents who utilises self-storage space for personal usage (53%) is higher compared to those who use it for business purposes (47%).



A large proportion (52.7%) of small and medium enterprises ("SMEs") form the business user respondents, followed by the online business (19.4%) and start-ups (19.4%) (Exhibit 1). There is a notably higher proportion of male business users (74.7%) compared to female business users (25.3%), with majority of them aged between 30 and 49 years old. According to Exhibit 2, a large majority of 73.4% of business users are aged between 30 and 49, and the trend is consistent across both genders.



In the case of personal users, the proportion of male users (60.0%) is higher than female users (40.0%). Comparatively, the proportion of male and female users is fairly distributed compared to the business-users. In addition, majority (62.1%) of the personal users are aged between 30 and 44, with a higher proportion of older male users compared to older female users (Exhibit 2).

Exhibit 1 52.7% OF BUSINESS USERS ARE SMES

Source: Lock + Store, Knight Frank Research

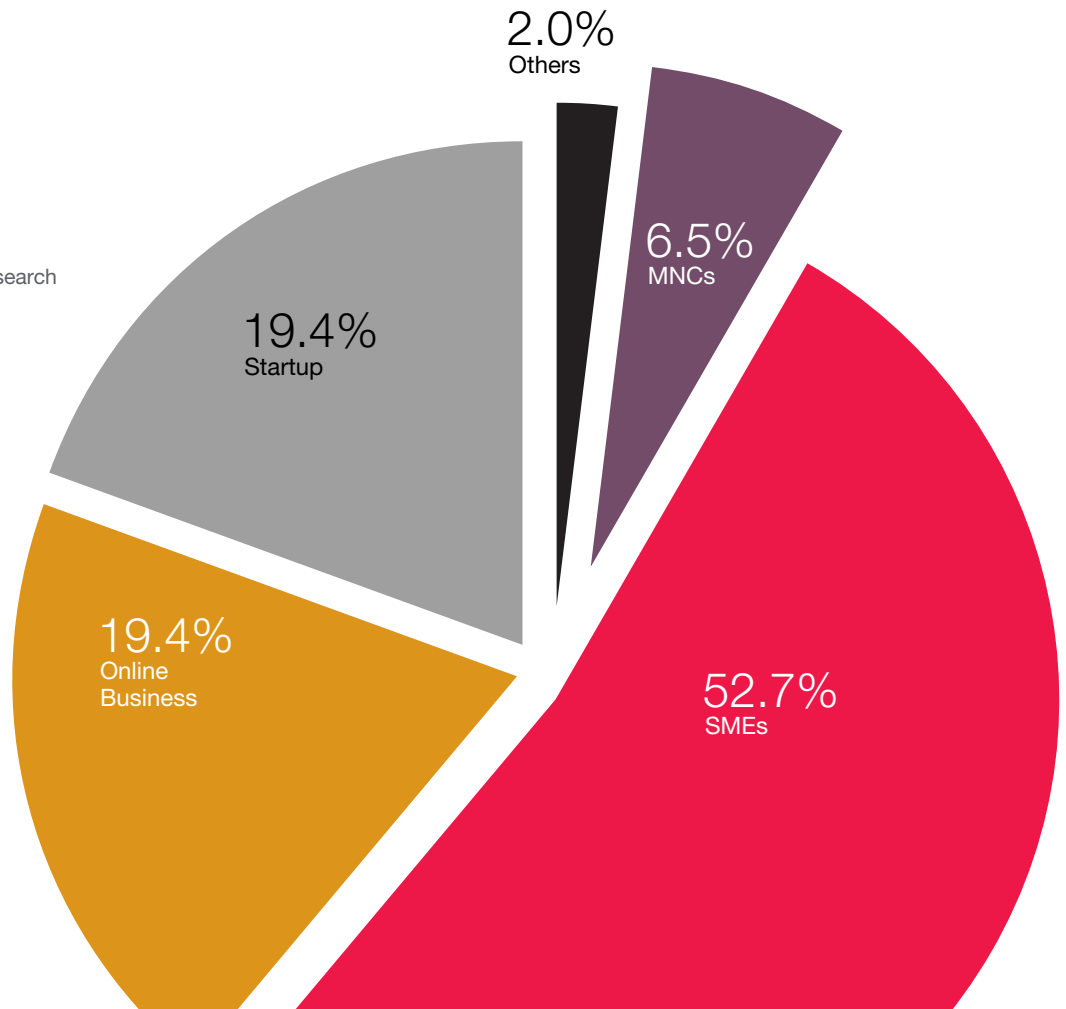
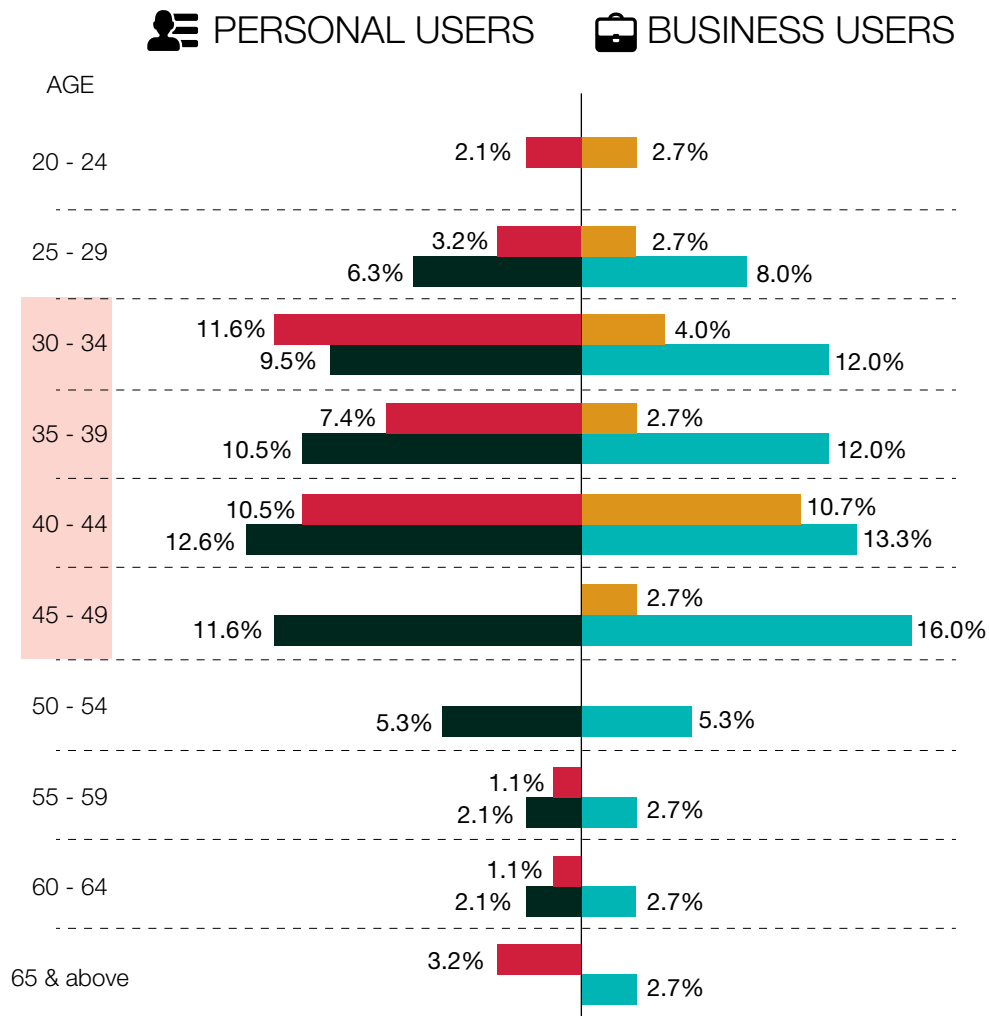




Exhibit 2

PROPORTION OF SURVEY RESPONDENTS ACCORDING TO USER TYPE AND BY AGE AND GENDER.



A large proportion of business user and personal users are between 30 and 49 years old according to our survey response.

Source: Lock + Store, Knight Frank Research

WHAT DRIVES DEMAND OF SELF-STORAGE SPACE?

The top reason given by personal users for using self-storage space, is the relocation to a smaller home (67.9%).

Fundamentally, Singapore's stable economic, political and social backdrop has consistently motivated real estate demand. Between Q2 2009 and Q3 2013, the heated demand for Singapore's residential properties drove private home prices up by 62.2% and escalated homebuyers' concern over housing affordability. Despite the implementation of anti-speculative measures between 2009 and 2013, private property prices were observed to remain fairly resilient – fell by 9.1% in Q2 2016 from Q2 2013 – compared to the drop in demand for private housing – with total transaction volume declined by 59.2% since post-implementation of the Total Debt Servicing Ratio framework (H2 2013 and H1 2016) and pre-implementation period (H2 2010 and H1 2013). Through these key events, one can note the underlying drive towards smaller homes being developed in recent years. According to Knight Frank's research, the average unit sizes (sqm) of new sale private residential transacted caveats have shrunken by 31.6% over the past 10 years from 127 sqm in 2006 to 87 sqm in 2016 (Exhibit 4). With this concern in mind, personal users are expected to look into alternatives for an extended storage space without having to compromise on their actual living space. From Exhibit 5, the top 10 items stored by self-storage users include furniture, clothes and books.

Exhibit 4
SHRINKING AVERAGE RESIDENTIAL UNIT SIZE

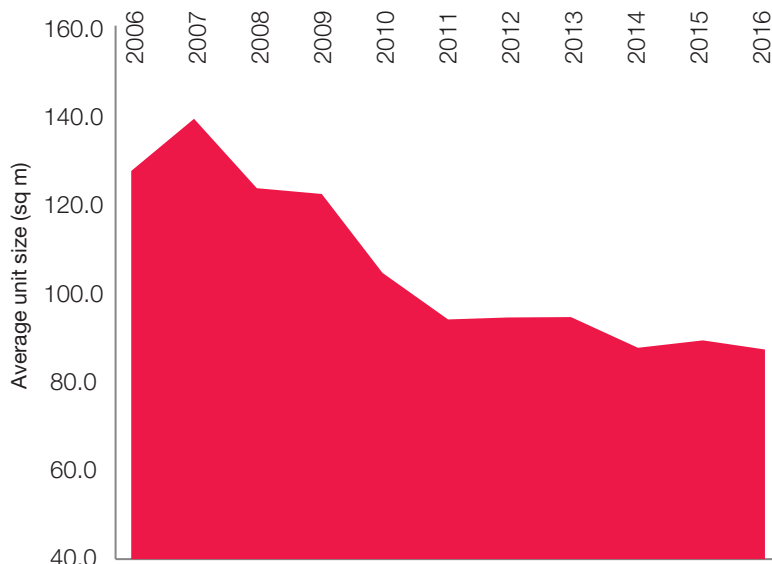
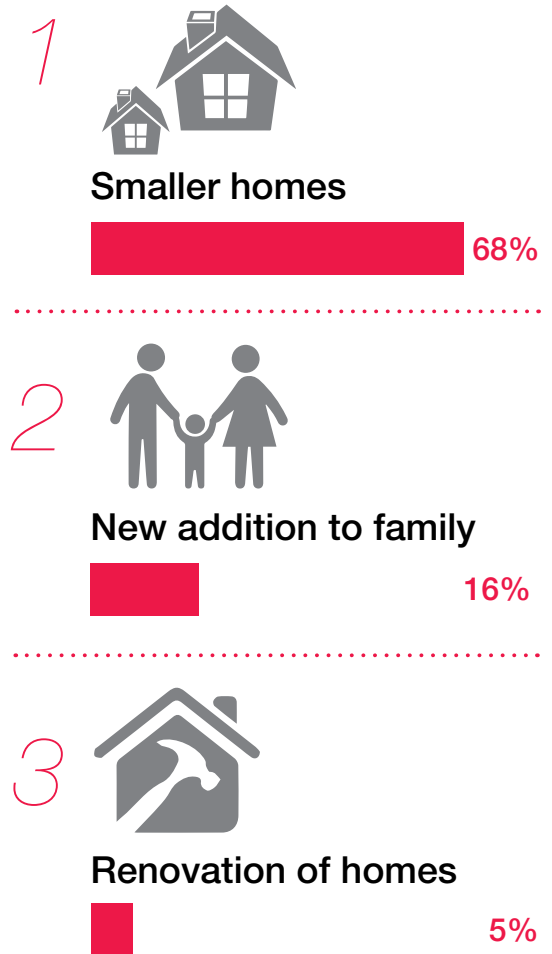


Exhibit 3

REASONS OF PERSONAL USERS FOR USING LOCK+STORE SELF-STORAGE SPACE



Source: Lock + Store, Knight Frank Research

Shrinking living space in Singapore is the top demand driver for self-storage space.

Source: REALIS, Knight Frank Research
Note: Based on Knight Frank's analysis of new sale residential transaction caveats between 2006 and 2016 as at 20 October 2016.



Exhibit 5

TOP 5 ITEMS STORED BY RESPONDENTS

18%



Furniture & household products

16%



Clothes

14%



Books

14%



Office equipments, stationeries & documents

11%



Toys

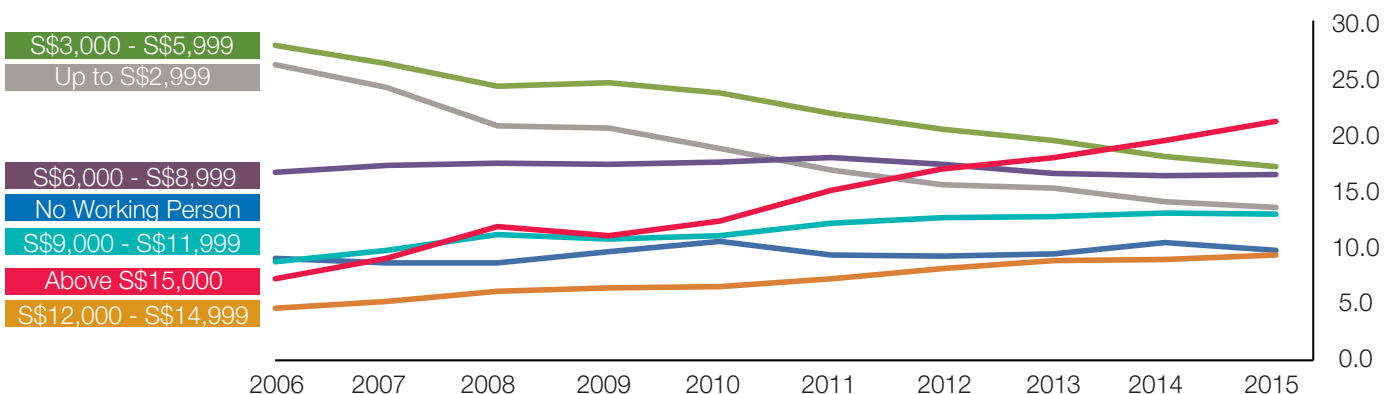
Source: Lock + Store, Knight Frank Research

A MORE AFFLUENT COMMUNITY GAVE RISE TO HOBBYIST CULTURE

The continual growth of Singapore's economy has given rise to greater resident affluence and consumerism. The proportion of households earning a monthly income of more than S\$15,000 grew significantly to 21.1% in 2015 compared to 7.2% in 2006 (Exhibit 6). Therefore, there is a higher tendency for more residents to accumulate articles, particularly collectibles such as airplane models, electrical equipment, ornaments and wines. With an anticipated growing number of hobbyists, there is an increasing need for specialised space to store various types of collectible items. In 2015, about 90% of Lock & Store's wine storage cellars have been subscribed by users and going forward, the self-storage operator is looking to expand this niche segment of the business. This is in tandem with the growing demand for artisanal wine storage from both wine dealers and enthusiasts arising from increased wealth and lifestyle changes.

Exhibit 6

MONTHLY HOUSEHOLD INCOME FROM WORK (INCLUDING EMPLOYER CPF CONTRIBUTION)



Source: Singstat, Knight Frank Research

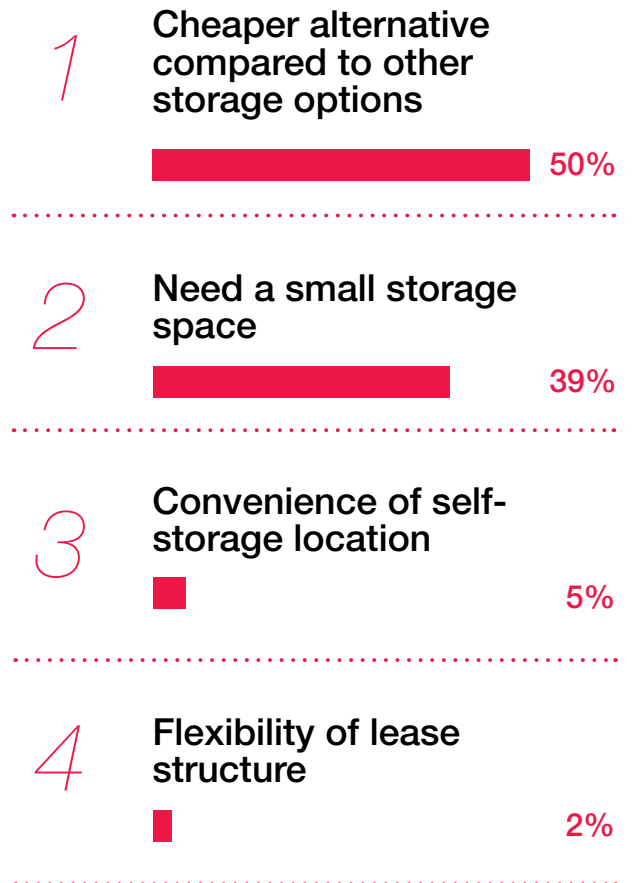
BUSINESS OWNERS SEE SELF-STORAGE AS A VIABLE RESOURCE TO MANAGE COST EFFICIENTLY

From our survey about 50% of business users opted for self-storage space as a cheaper alternative compared to renting shops or warehousing space (Exhibit 7). With rental outlay as one of the biggest cost components, coupled with the challenging economic climate, business owners are more conscious of storage costs. Unlike a standard warehousing concept, the flexible self-storage model allows for business users to choose from wide-ranging size options (ranging from less than 16 sq ft to more than 300 sq ft of leasable space) in accordance to their storage requirements. This helps to prevent space wastage and allows for better management of the business's overall costs and financial performance. In addition, it allows business owners to flexibly scale up their space usage to meet peak festive periods where the demands for goods are the strongest, or to reduce their storage needs without committing to an extended tenancy period.

Naturally, the mode of self-storage meets the needs of start-ups amid the growing e-commerce sector and the expanding tech-savvy generation, which typically seek more operational flexibility and cost efficiency when conducting their business. About 37% of the business users surveyed have adopted the self-storage concept even when they work from home.

Exhibit 7

REASONS OF BUSINESS USERS FOR USING LOCK+STORE SELF-STORAGE SPACE



Source: Lock + Store, Knight Frank Research

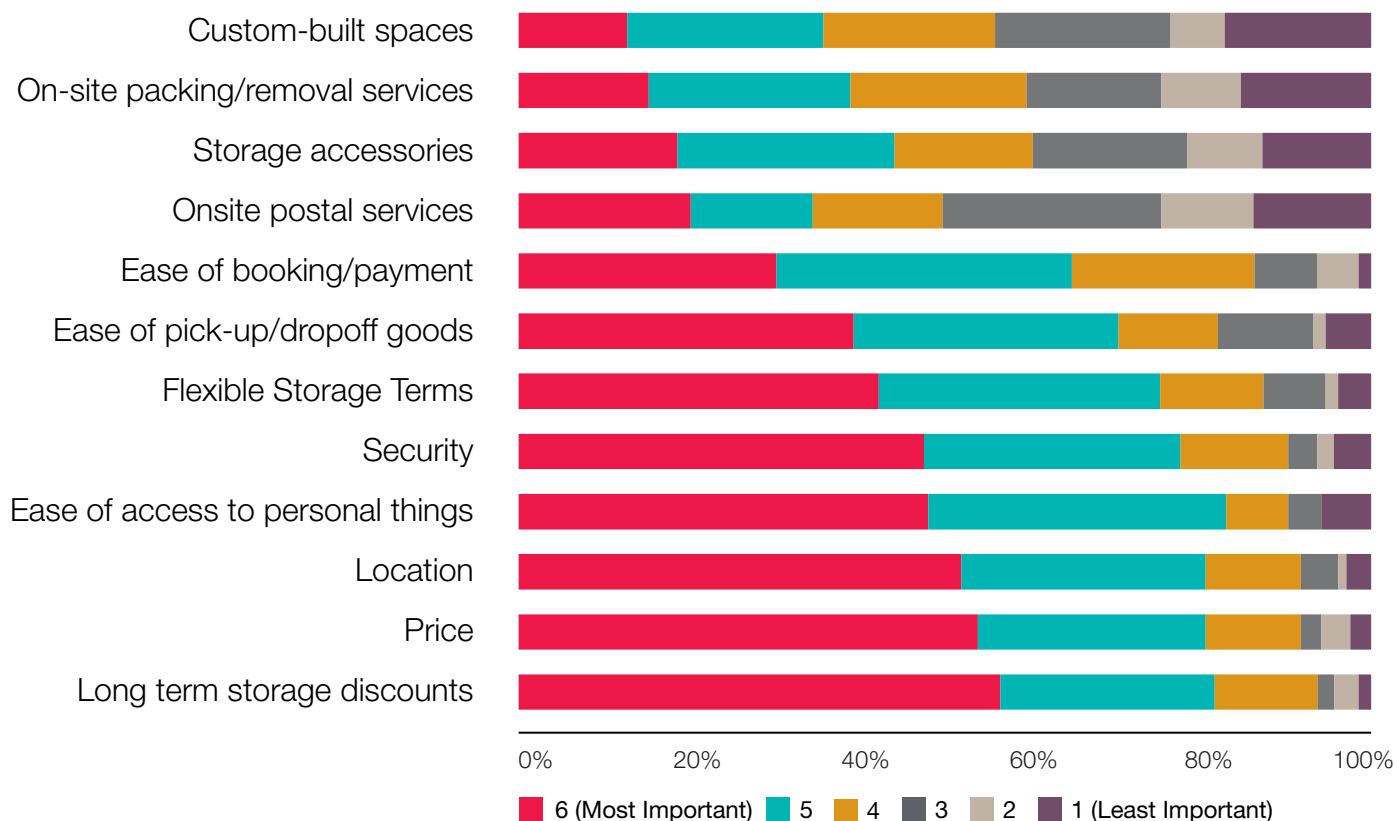


50%

of business users opted for self-storage space as a cheaper alternative compared to renting shops or warehousing space

KEY CONSIDERATIONS OF SELF-STORAGE USERS

Exhibit 8



Source: Lock + Store, Knight Frank Research

When asked about key considerations² before selecting a self-storage facility, more than 90% of the respondents placed top priority on the overall pricing (price and long term storage discounts). One of the reasons for the respondents' price sensitivity could be attributed to the slower economy and weakened demand for conventional warehousing space. Secondly, the availability of more self-storage facilities in recent years has offered more choices for end-user customers.

The location of the self-storage facility is another key consideration for the respondents. To justify for the higher emphasis placed on the location factor, it is important to study the underlying motivation behind using a self-storage facility, in terms of its primary purpose of use – personal or business.

The survey reveals that a large proportion (44%) of the users patronise their self-storage facilities at least on a weekly basis³ (Exhibit 9). A higher proportion of business-users (65%) are observed to patronise their self-storage facilities at least on a weekly basis compared to the personal users (23%). It is observed that these respondents are inclined to select a facility either near their home or their workplace for convenience. Understanding the importance of this aspect, Lock + Store has the most widely distributed self-storage facilities across Singapore. Its facilities are also located within close proximity to the residential and commercial catchment as part of their business strategy.

² For the survey under key consideration section, respondents were required to allocate a score of between 1 (the least important) to 6 (the most important) to each attribute.

³ This includes users who patronise their self-storage facilities on a daily and weekly basis.

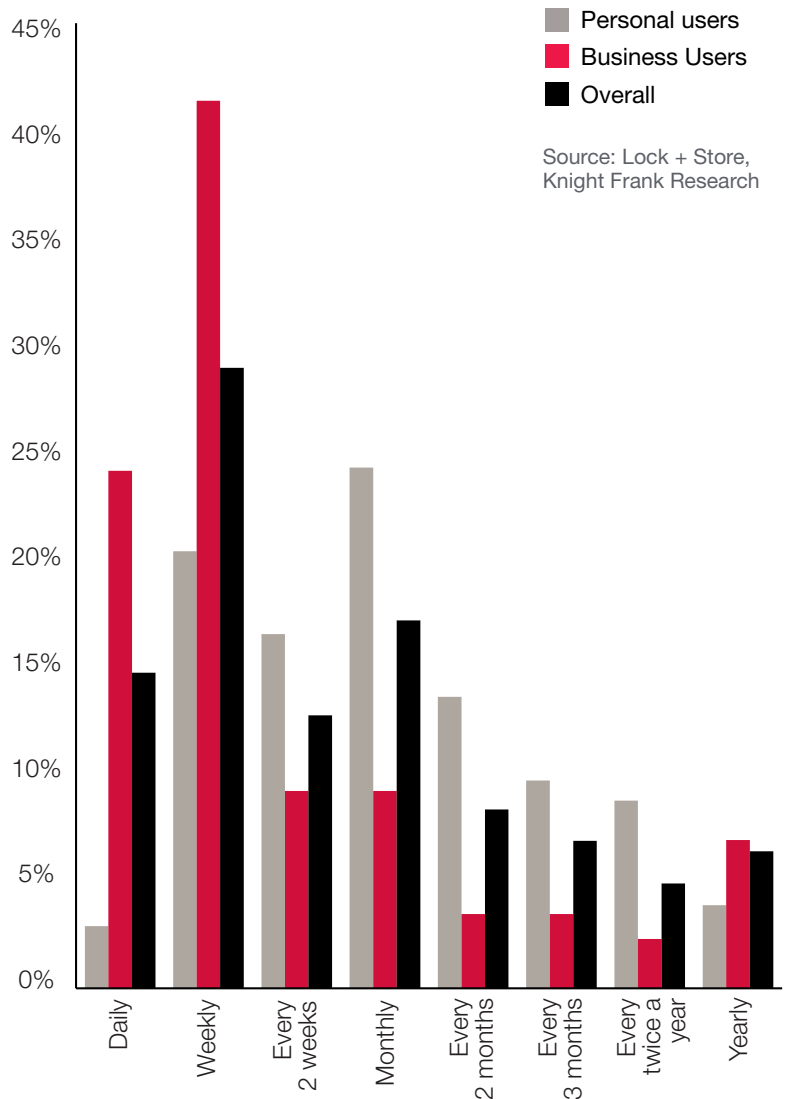
Exhibit 9

FREQUENCY OF VISIT TO SELF-STORAGE FACILITIES, BY PROFILE OF USERS

Other attributes such as overall security level, flexible storage lease terms, the ease of goods pick-up or drop off, and the ease of booking or payment are relatively important to the respondents, and would have been put in place by major self-storage players. Invariably, the typical self-storage consumer is likely to seek price quotations from a few self-storage vendors whose facilities fall within their shortlisted areas, before deciding on their storage locations.

Conversely, the respondents placed the least importance on services such as onsite postal services, storage accessories, on-site packing / removal services and custom-built spaces. On the surface, the respondents appeared to be indifferent in these additional services. From survey evidence awareness of the availability of these services remain fairly low among the users (Exhibit 10). Only 35.7% of the users were aware of the box shop services. Another 24.6% of the users are familiar with the onsite postage services and 21.3% of the users are aware of the Popstation service.

With the growing prominence of self-storage market in Asia, it is imperative to establish rules and standards to regulate the market. The Self Storage Association Asia (“SSAA”), formed in 2014 and currently constitutes seven members, targets to set good industry practices and standards for its members under its ‘code of conduct’. This includes areas such as fire safety, facility management, standardising license agreement, allowing prospects to inspect the premises before lease confirmation, offering of storage insurance for end-users, setting compulsory for all facilities operators to have third party insurance, as well as setting minimum standards for the security and access systems. Where members of SSAA are expected to strictly adhere to these standards, it will help to improve users’ receptiveness and willingness to adopt the self-storage concept to store their personal and business items in a safe and good quality facility.

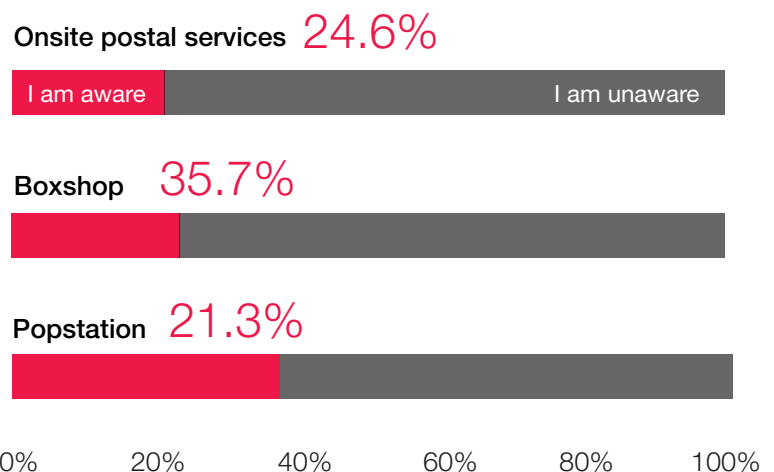


Source: Lock + Store, Knight Frank Research

Exhibit 10

LEVEL OF CUSTOMER AWARENESS OF OTHER SERVICES WHICH LOCK & STORE PROVIDE

Source: Lock + Store, Knight Frank Research



0% 20% 40% 60% 80% 100%



GROWTH PROSPECTS

The self-storage market in Singapore is at its growth stage with potential for further market expansion in the near term. According to the Operator Survey Results 2015 by Ipsos Business Consulting (“Ipsos”), the average occupancy of island-wide self-storage facilities in Singapore stood at 74% in 2015, higher than the average occupancy (71%) of self-storage across the six selected countries⁴. This is regardless of Singapore’s high gross floor area of self-storage space at 0.425 sq ft per capita, which is slightly behind Hong Kong (0.651 sq ft per capita).

POPULATION GROWTH AND LAND SCARCITY CONTRIBUTES TO EXPANDING CATCHMENT POOL OF NON-BUSINESS USERS

Given personal users (i.e. individuals and households) constituting a substantial proportion of the demand for self-storage space, sustainable population growth plays an impetus role in the expansion of the market by increasing the catchment pool. According to Singapore Population White Paper 2013, the total population projected in the city-state could range between 6.5 and 6.9 million by 2030 – translating to 1.1% to 1.6% annual growth rate for the next 14 years from the current population size of 5.6 million⁵. Assuming no further growth of self-storage space up till 2030, this projection will translate to a lower GFA of between 0.339 and 0.359 psf per capita. Coupled with land scarcity and competing land uses, the need for extended storage spaces is likely to increase, which potentially translates to demand and growth prospects for the self-storage industry over the mid to long term.

⁴ The six selected countries include China (Mainland), Hong Kong, Taiwan, Japan, Malaysia and Singapore.

⁵ Singapore population figure based on the Department of Statistics Singapore’s latest update – as at June 2016).

EXPANSION OF E-COMMERCE PROVIDES SUPPORT TO SELF-STORAGE SPACE DEMAND

With on-going industrial restructuring to establish new niches and competitive edge among both conventional manufacturing segments and emerging trades, an inevitable modification in the usage of industrial space is likely to gather pace. Particularly in the face of a challenging business environment, it prompts landlords to re-evaluate on more efficient utilisation of their property assets in ways that can better expand the potential occupier clientele to help boost demand.



The cost of converting warehouse spaces into self-storage facilities ranges between S\$70 to S\$100 psf of net lettable area.

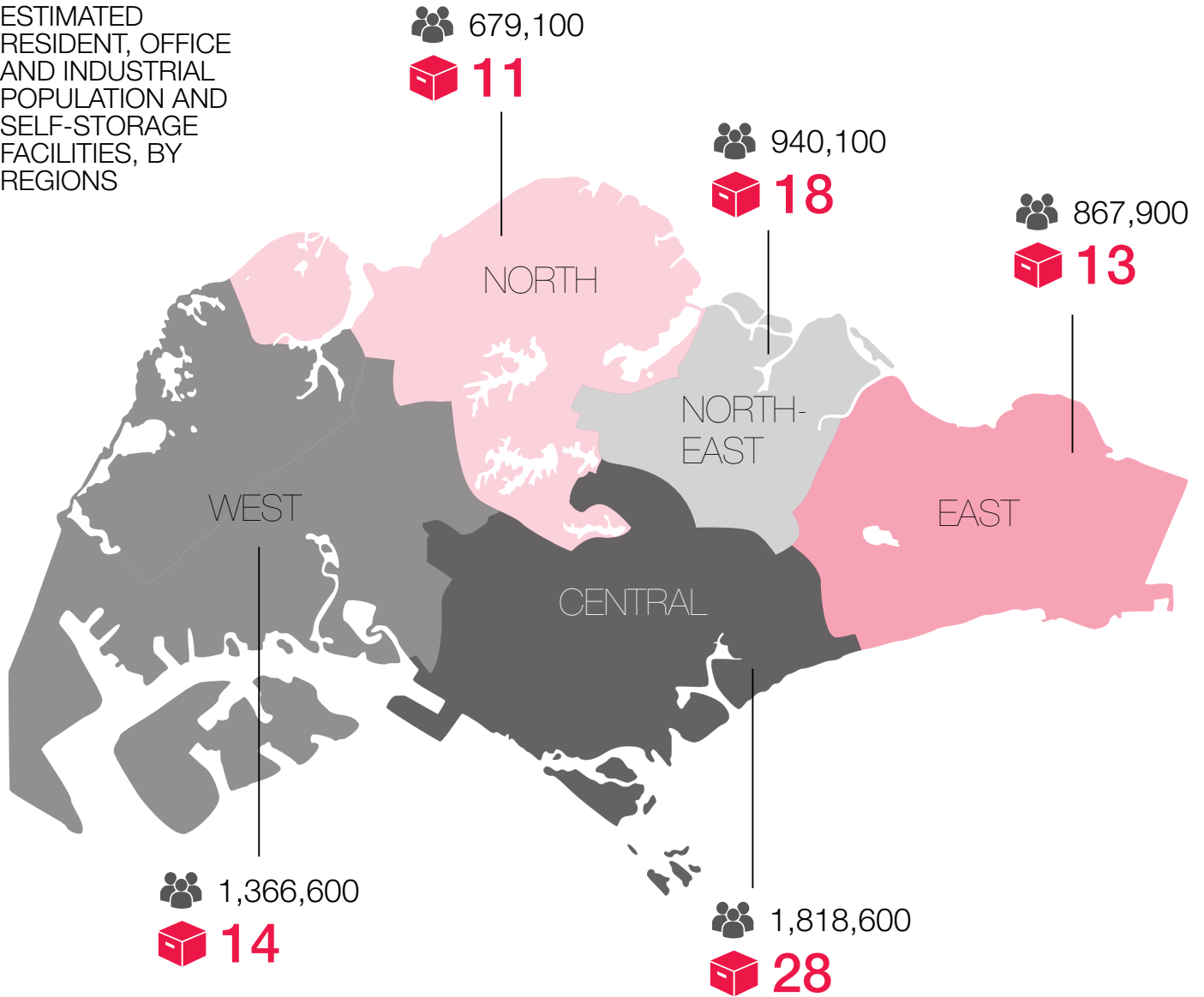


One of the possible concepts that may be explored by warehousing business owners include repositioning their assets to self-storage concept, which enables higher spatial and tenure flexibility in capturing demands from emerging business trades such as expanding e-commerce sector. According to Helen Ng, chairman of Self Storage Association Asia, the cost of converting warehouse spaces into self-storage facilities ranges between S\$70 to S\$100 psf of net lettable area. However, vigorous policy requirements have largely influenced the rising cost of conversion of such facilities. These involved applications to relevant authorities such as Land Transport Authority (“LTA”) and Fire Safety Bureau (“FSB”). However, not all industrial sites are feasible for the conversion as easy accessibility, proximity to ready-catchment, tenure of lease are still some of the pre-requisites for self-storage developments.

Although the e-commerce sector is viewed as one of the key demand drivers of self-storage space, the small market size of Singapore is expected to limit the scale of the e-commerce sector. According to the e-economy SEA study conducted by Google and Temasek, the proportion of Singapore’s e-commerce market to the total retail share is projected to grow gradually by 4.6 percentage points from 2.1% in 2015 to 6.7% in 2025. In tandem with its possible moderate expansion, the e-commerce is likely to provide steady support to the demand for self-storage space in the next 5 to 10 years instead of a significant boost.

Exhibit 11

ESTIMATED
RESIDENT, OFFICE
AND INDUSTRIAL
POPULATION AND
SELF-STORAGE
FACILITIES, BY
REGIONS



Estimated Resident, Office and Industrial Population*

No. of Self-storage facilities

Source: Singstat, REALIS, Knight Frank Research

FOLLOWING SINGAPORE GOVERNMENT'S LONG-TERM GROWTH STRATEGIES, THERE LIES OPPORTUNITIES FOR SELF-STORAGE MARKET TO ESTABLISH PHYSICAL PRESENCE IN THE NORTH AND WEST REGIONS

At present, the most number of self-storage facilities are located within the Central and Northeast regions which are densely populated with residential, office and industrial working population (Exhibit 11). There is less number of facilities situated in the West and North regions.

Singapore government's long-term decentralisation strategies by developing the three selected regional hubs (i.e. Jurong East, Woodlands and Paya Lebar) present opportunities for the self-storage industry to establish their presence in these areas going forward. Jurong is envisioned as the second biggest business district outside the Central Business District (CBD), and is poised to attract an influx of residential and commercial population in the area. This will subsequently serve as the expanded catchment base for self-storage space.



WITH ECONOMIC HEADWINDS, COMPETITION AND CONSUMER AWARENESS, SELF-STORAGE INDUSTRY IS EXPECTED TO SEE MODERATE GROWTH OVER THE NEXT THREE YEARS

While there are indications of positive prospects for the self-storage market in Singapore, its growth trajectory is likely to be gradual and grows in tandem with increasing consumer awareness over the next three years.

The muted economic growth trends in 2016 are likely to weigh on self-storage demand in the near term. Singapore's Gross Domestic Product ("GDP") growth slowed to 2.0% year-on-year in 2015 and further slipped to 1.1% y-o-y in Q3 2016 amid the challenging economic landscape and geopolitical uncertainties. The overall resident unemployment rate in 2016 rose 3.0% (seasonally adjusted) from 2.8% in 2015. The weaker economy has also impacted retail sales, with retail sales index ("RSI") trending downwards by 2.7% y-o-y in September 2016 compared to September 2015. In particular, watches & jewellery (-11.7% y-o-y), telecommunication apparatus & computers (-9.9% y-o-y), and spending on food & beverages (-9.7% y-o-y) saw the largest decline. The cutback on expenditure, as a result of the slower economy, could imply that users may reduce their self-storage space requirement going forward.

The competition amongst self-storage players is expected to rise as more new entrants join in the bandwagon. With more established players expected to expand their footprints in the market, self-storage operators are

envisaged to step up on their marketing strategies to attract both business and personal users. This includes strengthening their unique selling points and differentiating themselves from the rest of the operators in the market. For instance, apart from functioning as a standard storage space provider, Lock + Store also provides added-services such as onsite postal service, pop stations and box shops to enhance the convenience of its storage users, especially for those in the online business. From the marketing perspective, these operators may be looking to offer attractive rental packages which include incentives such as rent-free periods.

To keep up with the ever-changing and dynamic market, the self-storage industry has to be more agile and nimble by constantly reinventing its business model. For example, the operators can consider working with condominium management corporation strata title ("MCST") to offer self-storage service as an ancillary service to home-owners. Apart from that, self-storage facilities could evolve into multi-concept storage spaces, and be designed functionally to cater for business end-users with wider range of items which may mandate for different storage requirement. This is to remain relevant in catering to the needs of the end-users and staying afloat even during times of softer economic climate.

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ABOUT LOCK + STORE

Lock+Store, a subsidiary of Singapore Post Ltd, is a one-stop self-storage hub in Singapore offering flexible short-and long-term storage facilities and office space for households, wine collectors and distributors, start-ups, SMEs and large corporations. The 14 storage facilities across East, North, and West Regions are accessed via a unique passcard system that gives company employees and individual users convenient access while maintaining the security of their belongings.

ACKNOWLEDGEMENT

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