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Comparing Emerging Markets in the Global Self-Storage Industry

Presented by

David Blum, President

Better Management Systems LLC

Who Am I?

- Involved in self-storage for the past 19 years
- Consulting for 11 years
 - Feasibility reports
 - “Hand-holding” first-time investor/developers
 - Third-party management company
- Specialize in working with international clients for 10 years
- Co-producer of the Latin American Self-Storage Expo in Sao Paulo, Brazil, past two years



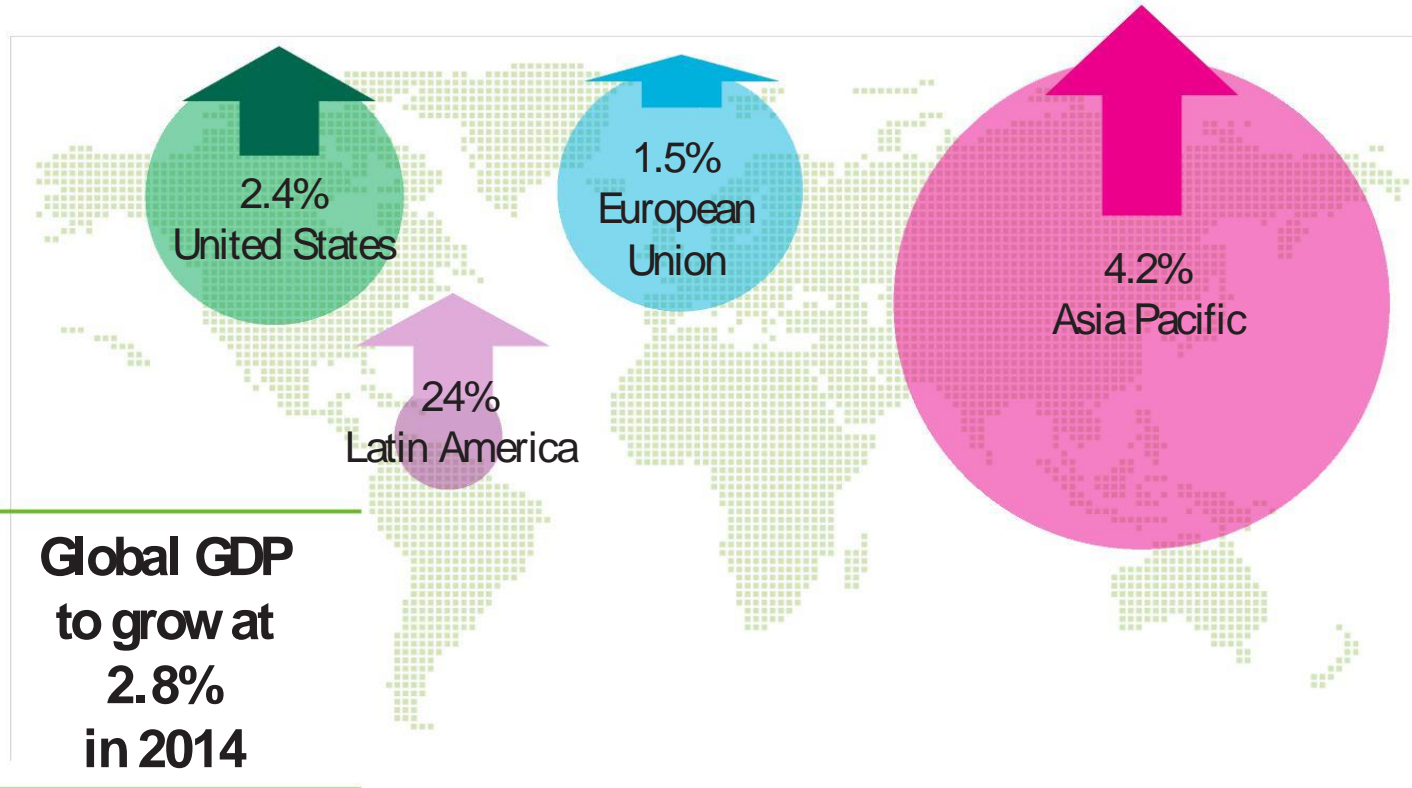
Today's Goals

Share information I have gathered on two rapidly expanding markets: Southeast Asia and Latin America

- Brief international market overview
- Metrics: What both markets look like today and what potential may exist
- Explore differences and similarities
- Discuss challenges and opportunities
- Long-term prognosis
- Factors for success



Overview: Projected GNP Growth



Overview: Projected GDP

Country and Region-Specific Forecasts and Data

Source: The World Bank, 1/26/15

Country	2012	2013	2014e	2015f	2016f	2017f
Latin America	2.6	2.5	0.8	1.7	2.9	3.3
Middle East	1.4	0.5	1.2	2.5	3.0	3.5
South Asia	5.0	4.9	5.5	6.1	6.6	6.8
Sub-Saharan	4.0	4.2	4.5	4.6	4.9	5.1



Overview: Europe

Country	Number of Facilities	Square Meters
Belgium	29	127,314
Czech Republic	3	10,122
Denmark	50	148,334
Finland	70	104,500
France	330	901,800
Germany	131	392,000
Ireland	25	8,225
Italy	45	160,500
Norway	60	108,750
Spain	210	417,884
Sweden	112	386,592
Switzerland	28	59,640
United Kingdom	975	3,200,000



Overview: Europe

“Our estimate suggests for the first time that there are more than 2,000 facilities of varying sizes across Europe. Together they provide over 8 million square metres of current rentable space. The total available space when all facilities are fully built out is approximately 9 million square metres. This available space averages out at 0.016 square metres per person.”

~Federation of European Self Storage Associations

In U.S. terms, that's 0.17 square feet per person.

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Overview: Southeast Asia

It's on YouTube, so it must be true:



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Overview: Southeast Asia

Southeast Asian Facilities

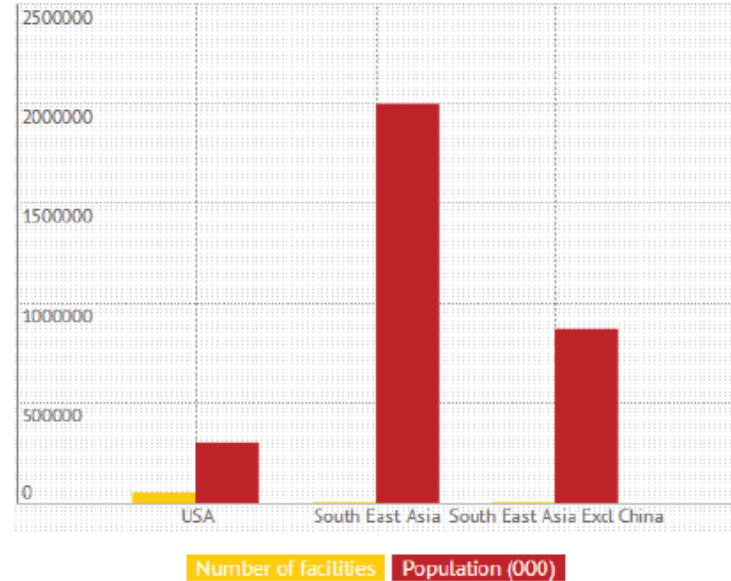
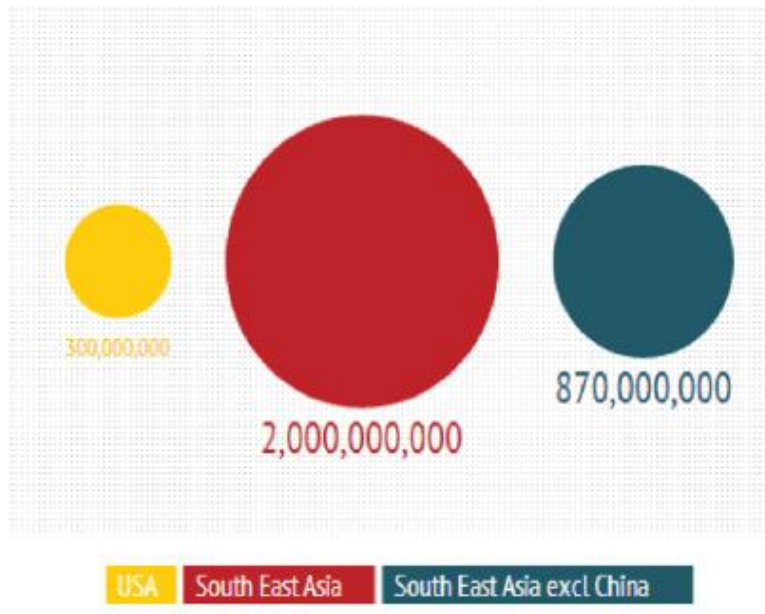
Source: Self Storage Association Asia

	Companies	Sites	Square Meters
South Korea	1	1	NA
China	>20	>35	>3.7
Japan	100	150,000	300,000-400,000
Japan Container	300	350,000	800,000-900,000
Taiwan	6	44	NA
Hong Kong	~120	500+	>3
Vietnam	0	0	0
Thailand	6	6	NA
Malaysia	8	8	NA
Singapore	14	44	1.5
Indonesia	2	2	NA

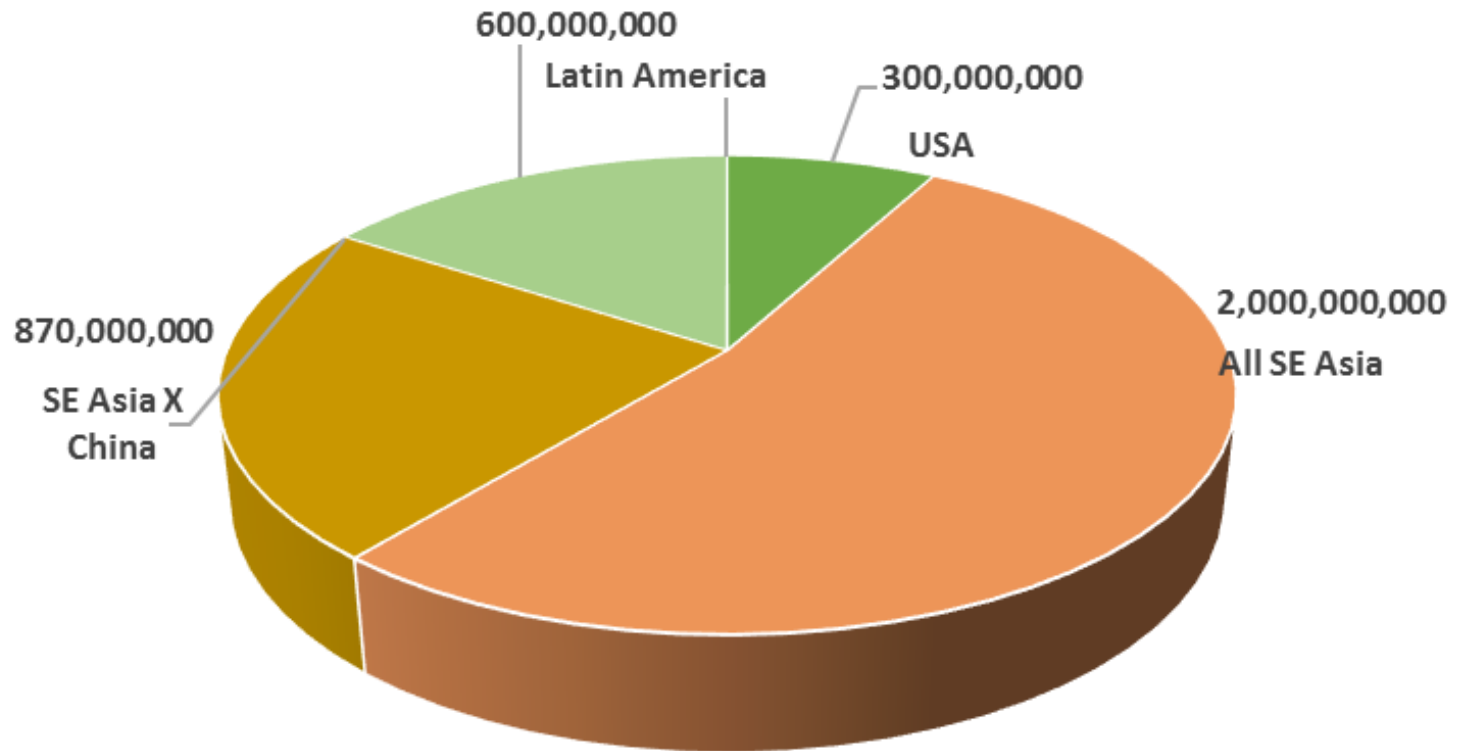


Overview: Southeast Asia

In the U.S., more than 50,000 self-storage facilities serve a population of 300 million. In Southeast Asia, 2 billion residents have access to around 3,000 facilities. Excluding China, 290,735 people still need to share a self-storage facility.



Overview: Latin America



Overview: Latin America

Country	Operators	Facilities
Argentina	42	42
Belize	2	2
Bolivia	0	0
Brazil	40	100
Chile	7	27
Colombia	56	84
Costa Rica	7	8
Ecuador	9	10
El Salvador	3	4
Guatemala	4	9
Honduras	0	0
Nicaragua	1	1
Panama	13	26
Paraguay	0	0
Peru	4	2
Puerto Rico	7	17
Santo Domingo	0	0
Uruguay	0	0
Venezuela	1	1
TOTAL	230	349



Guarde Aqui, Sao Paulo, Brazil

1.7M people per facility



Overview: Latin America

Estimated growth of facilities from 2012 to now is approximately 15 percent to 20 percent per year.

Biggest growth markets in last two years:

- Brazil
- Chile
- Mexico
- Panama
- Columbia



MetroFit in Sao Paulo, Brazil



Overview: Latin America

New emerging markets:

- Uruguay
- Peru
- Ecuador



Depo Seguro in Lima, Peru



How to Measure Demand

United States

- Best guess = 320,000,000 people
- 50,000+ self-storage facilities
- Equilibrium = 6-7 square feet per person



How to Measure Demand

According to the Self Storage Association demand study:

- Awareness 90%
- Used self-storage more than 50%
- Currently using self-storage 10-11%

32 to 35 million people are in a self-storage unit today.



Determining International Demand

Proven formula for any given market (based on customer-commissioned market study):

- 20% of population base
- 2 square feet per person



Challenges and Changes

Biggest challenges:

- Lack of credible demographic statistics
- Limited actual facility data
- Culture of distrust
- Lack of awareness

Biggest changes:

- Growth of Associations



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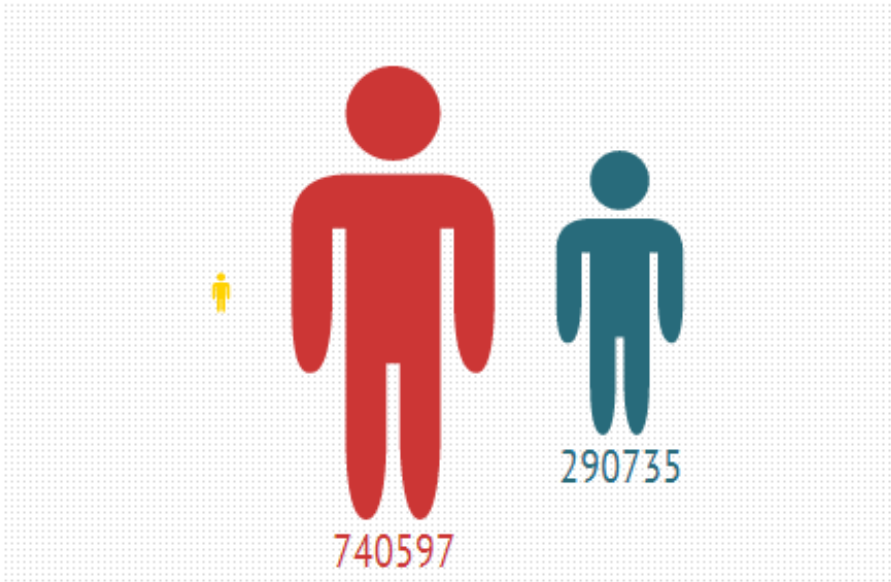
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Potential Market Opportunities

If Southeast Asia were to grow its self-storage market to the same penetration level as that of the U.S., that gives a capacity for more than 350,000 facilities, or a growth of 11,566 percent.



USA South East Asia South East Asia excl China



Potential Market Opportunities

Latin America/Caribbean

Population growth has been in slow decline in this region, largely due to a lower birth rate in Brazil and Mexico, the two countries that account for more than half of the region's population. In Brazil, women average 1.8 children, while in Mexico the average is about 2.2. Among developing regions, Latin America/Caribbean has the highest prevalence of family planning at 75 percent for all methods and 68 percent for modern methods among married women. The region's population is projected to increase from 606 million today to 780 million in 2050. Three-quarters of a million people (on a net basis) leave the region for North America and Europe each year.

Source: Population Reference Bureau, PUBLICATIONS MULTIMEDIA TOPIC/GEOGRAPHY EVENTS DATAFINDER ABOUT Archives: 2013, World Population Data Sheet 2013

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Apply Calculations: Latin America

	Today	2050
Population	600M	780M
Target Customer Base @ 20%	121M	156M
Project Demand (Square Feet)	242M	312M
Project Demand (Square Meters)	22.5M	29M



Recent Press: Southeast Asia

The Japanese Self-Storage Market: Between Youth and Maturity, the Industry Finds Double-Digit Growth

Inside Self-Storage, April 7, 2014

Aussie Self-Storage Market Expands Despite Obstacles to New Development

Inside Self-Storage, April 30, 2014

National Storage REIT of Australia Acquires Self-Storage Facility in Townsville, Queensland

Inside Self-Storage, May 5, 2014

National Storage REIT Expands Portfolio in Perth, Western Australia

Inside Self-Storage, June 13, 2014

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Recent Press: Southeast Asia

National Storage REIT of Australia

NSR operates 65 self-storage centers in New South Wales, Northern Territory, Queensland, South Australia, Victoria and Western Australia. It is the first independent, internally managed and fully integrated owner and operator of self-storage centers to be listed on the Australian Securities Exchange.

Australian self-storage operator National Storage REIT (NSR) recently acquired a self-storage facility in Townsville, Queensland, Australia, for \$17 million. It encompasses more than 16,500 meters of storage space. It features two two-story buildings and 1,467 storage units.



Recent Press: Southeast Asia

Singapore-Based Lock+Store Buys 4 Store House Facilities in Hong Kong

Inside Self-Storage, July 14, 2014

Extra Space Self Storage of Asia Acquires Majority Stake in Storeasy in Taipei, Taiwan

Inside Self-Storage, August 5, 2014

Storeasy operates 10 facilities featuring more than 2,000 units...

Extra Space will operate a portfolio of 19 facilities in four countries, encompassing more than 1 million square feet of storage space and serving more than 8,500 customers.

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Recent Press: Latin America

MetroFit Opens Its First São Paulo, Brazil, Self-Storage Facility

Inside Self-Storage, January 17, 2014

Brazilian Self-Storage Operator GuardeAqui Signs Joint Venture With Morgan Stanley Investment Group

Inside Self-Storage, February 14, 2014

Brazilian Self-Storage Operator GuardeAqui Adds Investment Fund as Partner

Inside Self-Storage, November 12, 2014

Brazilian self-storage operator GuardeAqui and Chicago-based investment firm Equity International have added Ranger Co-Investment Fund III as an investment partner.

GuardeAqui Announces New Partner in Brazilian Self-Storage: Ranger Fund Joins Morgan Stanley Alternative Investment Partners

Market Watch, November 11, 2014

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Local Markets: Southeast Asia

Forecast for Real GDP Growth Rate

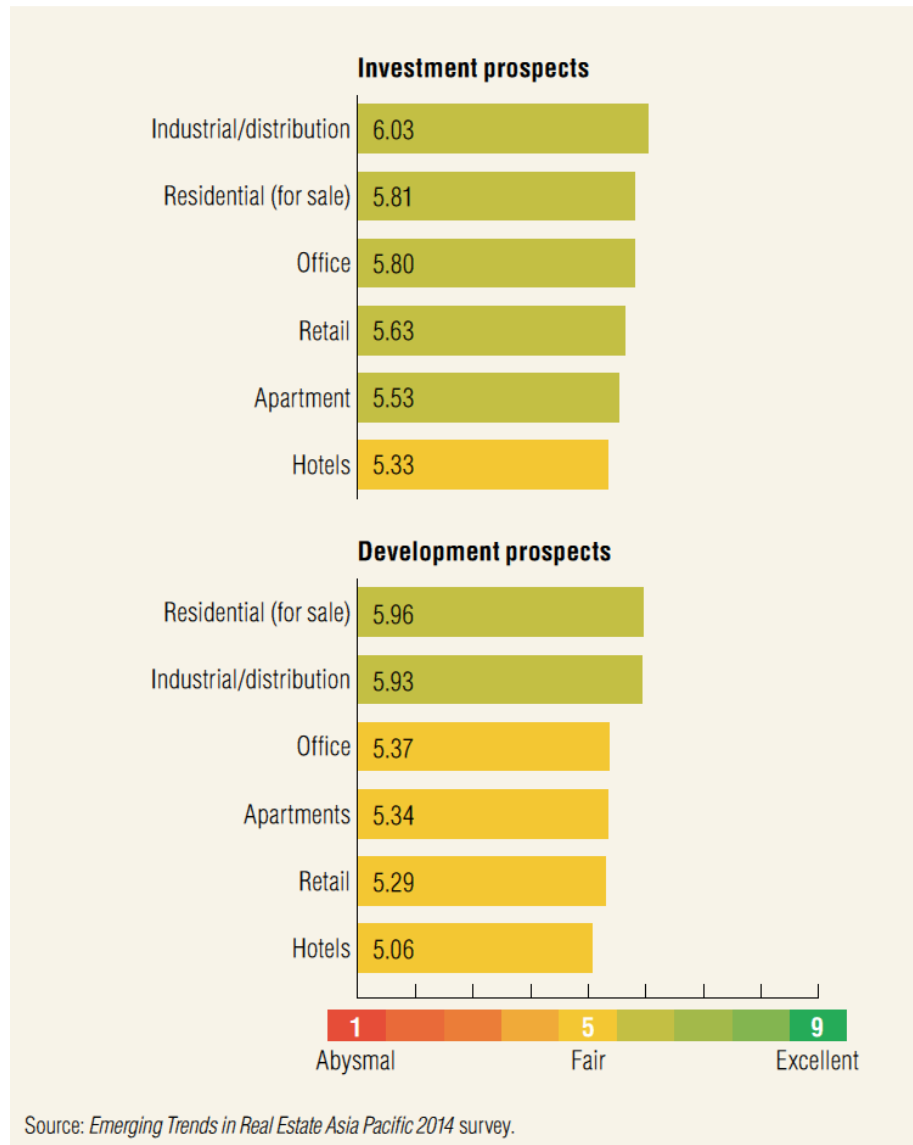
Source: International Monetary Fund, World Economic Outlook Database, October 2013

Country/territory	2010	2011	2012	2013*	2014*	2015*	2016*	2017*
China	10.45%	9.24%	7.70%	7.60%	7.25%	7.03%	7.01%	6.97%
Indonesia	6.20%	6.46%	6.23%	5.30%	5.50%	6.00%	6.00%	6.00%
Thailand	7.78%	0.05%	6.49%	3.11%	5.25%	5.01%	4.41%	4.68%
India	10.09%	6.84%	3.24%	3.80%	5.15%	6.27%	6.47%	6.65%
Vietnam	6.78%	5.89%	5.25%	5.30%	5.40%	5.40%	5.50%	5.50%
Philippines	7.63%	3.91%	6.81%	6.81%	6.03%	5.50%	5.50%	5.50%
Malaysia	7.15%	5.08%	5.64%	4.70%	4.90%	5.20%	5.20%	5.20%
Taiwan	10.72%	4.03%	1.32%	2.19%	3.77%	3.93%	4.16%	4.38%
South Korea	6.32%	3.63%	2.04%	2.84%	3.68%	3.96%	3.99%	4.03%
Hong Kong	7.09%	5.03%	1.50%	2.98%	4.38%	4.40%	4.49%	4.51%
New Zealand	1.82%	1.35%	2.65%	2.54%	2.94%	2.44%	2.50%	2.54%
Australia	2.51%	2.14%	3.67%	2.47%	2.78%	2.95%	2.97%	3.02%
Singapore	14.76%	4.89%	1.32%	3.54%	3.43%	3.61%	3.78%	3.86%
Japan	4.53%	-0.76%	1.96%	1.95%	1.24%	1.13%	1.17%	1.13%



Local Markets: Southeast Asia

Prospects for Major Commercial Property Types in 2014



What's Being Said: Latin America

Going pan-LatAm

THE 2014 GUIDE TO PRIVATE REAL ESTATE INVESTING IN LATIN AMERICA | PERE

Real estate investing in Latin America once favored country-specific platforms, but now pan-regional operating platforms may be emerging as the smarter bet.

By Tom McDonald, managing partner of Jaguar Growth Partners

Global Capital to Continue to Flow into Real Estate in 2015| By Michael Gerrity |

Commercial News » United States Edition, December 17, 2014

According to LaSalle Investment Management's new 2015 Investment Strategy Annual (ISA) report, money will continue to flow into real estate from across the capital markets worldwide, but investors should be increasingly concerned about getting caught late in the cycle and should anticipate the next cyclical downturn in a few years.

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What's Being Said: Latin America

At the same time, U.S. investors are becoming more open to the idea of investing in real estate in Latin America. **Opportunistic real estate fund managers in the United States who focus on Latin America say they are achieving internal rates of return of about 20 percent.** Their investments reflect a bet on an emerging middle class of young consumers who are starting to spend in a discretionary manner. Implications for growth are also strong in the warehousing and manufacturing sectors. “Once societies achieve middle class, they go from spending most of their money on food and shelter to spending it on more discretionary items. So whole supply chains are just being created to service that new consumerism. We are seeing that in spades in Brazil, where the industry is building out a modern supply chain for the first time. It’s very different from what you see in Los Angeles, where there already is an infrastructure,” says a U.S. fund manager who invests in Latin America. To some extent, a similar story is being told in the emerging markets of Asia, Africa, and eastern Europe. But U.S. investors who were interviewed for Emerging Trends emphasized that **Latin America offers greater transparency, more reliable rule of law, and less government interference than emerging markets in other regions offer.** Investors interviewed for Emerging Trends described complex legal structures that they complained had failed to allow them to repatriate their capital, and they complained that currency depreciation had wiped out most of their gains over the last couple of years. One U.S. investor said the value of his company’s real estate investments in Brazil is “up dramatically” over the last two years in local currency terms but that currency depreciation has “taken away all of those gains.” Still, they explained, they expect their investments to deliver robust returns over the long term.

Source: Urban Land Institute 2014

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What's Being Said: Brazil

The investment destination of choice in Latin America is Brazil, which, with nearly 200 million people, is the region's biggest country. A recent survey by the Association of Foreign Investors in Real Estate found that, despite large protests against the government in the first quarter of 2013, foreign investors still consider Brazil more attractive than any other emerging market in the world for the second year in a row for real estate acquisitions. China took first place in the survey, but Mexico—the second-largest country in Latin America—came in fifth. The survey also found that foreign investors consider Brazil second best (after the United States) in “providing the best opportunity for capital appreciation.” A key driver of commercial real estate development in Brazil is government spending on infrastructure projects for two of the world's most widely watched sporting events over the next three years. The government is upgrading stadiums, roads, ports, airports, and other infrastructure for the World Cup soccer tournament in a dozen Brazilian cities in 2014. It plans to undertake similar projects for the 2016 Summer Olympics in Rio de Janeiro. New hotels, restaurants, stores, and other forms of accommodation and related retail services are being built around the new stadiums and airports in anticipation of the millions of visitors that these sport events will draw to the region.

Source: Urban Land Institute 2014

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What's Being Said: Mexico

The next Latin American country that is likely to fall into the crosshairs of U.S. real estate investors is Mexico. Multiple industry participants noted that they were encouraged by signs of reform in Mexico, where drug-related crime and violence are declining and businesses are starting to expand under a new government that came to power in 2012. So, in 2014, Mexico's real estate industry will tap the public market for capital. In an emerging trend, the number of new real estate investment trusts (REITs) is increasing in Mexico, where the first public REIT was listed in March 2011. Many of the new REITs are apartment or mortgage companies. Still, several U.S.-based developers and fund managers who were interviewed for Emerging Trends, including those who currently invest in Latin America, say they will continue to avoid investing in Mexico because security concerns related to drug-related violence remain, as well as difficulty in finding skilled local partners. "Mexico is on the [uptick] and starting to get its act together. It will be a country of the future, but in the distant future," says a U.S. industrial developer.

Sources: Urban Land Institute 2014, Emerging Trends in Real Estate 89 © 2014

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Prognosis

- The metrics and articles by “the experts” reflect positive opportunities in both markets.
- I haven’t heard of a single project, built in a “proper” location and “styled” correctly, that has failed.
- Clearly, awareness is on the rise.
- Self-storage as a viable real estate investment has clearly become a larger “bleep” on the FUNDS radar.



Prognosis

- Know your potential customers
- United States
 - 25% commercial
 - 75% consumers
- Emerging markets (initially)
 - 75% commercial
 - 25% consumer
- Ultimately leveling off at 50/50



Factors for Success

- Know your objective ... What's your exit strategy?
 - Build and hold
 - Build and sell
 - Build a platform
- Local connection
 - Live
 - Work
 - Have a local strategic partner
- Proper resources
 - Well-funded
 - Don't be afraid to seek help



Factors for Success

- Leasehold vs. ownership
- Green field vs. conversion
- Gather as much data as possible
 - Demographics, retail-sales information
 - A/AB/B population
- Build an up-to date facility
- Know your competition (if any)
- Location – Location - Location



Factors for Success

If your goal is expansion via major investment partners—and with the rise of interest by large investment funds, self-storage, for the most part, is still a very “small potato”—the “magic bullet” is **scalable platforms**.

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