

Self-storage: creating its own market

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With retail and more recently offices falling out of favour with many investors, all eyes are on alternative property types. Among the most popular is self-storage, though as with any opportunity, a key consideration should be to separate the hype from the substance – or at least cyclical from structural drivers.

Self-storage has benefitted from both over recent years: While more consumers and small businesses became aware of self-storage and increasingly started using it, the sector also benefited from the cyclical forces of post-COVID activity, not least on housing markets. But does the opportunity go beyond the here and now? And are European markets equipped for self-storage?

Self-storage: U.S. versus Europe

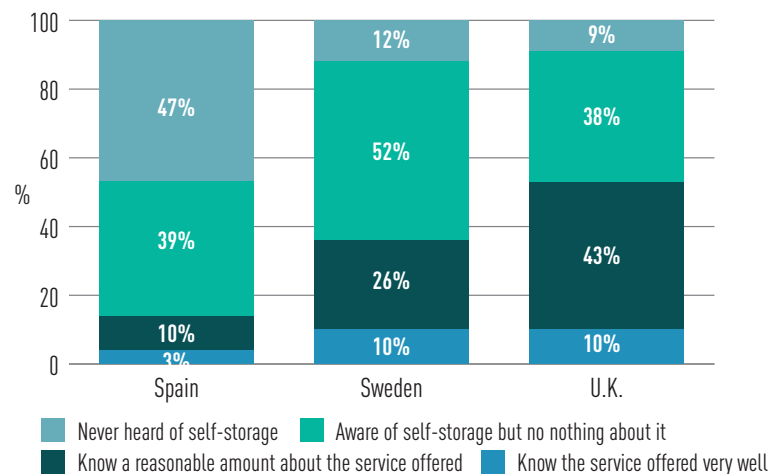
Extrapolating the trends from the U.S. self-storage story suggests the European market could see potential growth opportunities. The key argument points to provision rates compared with the U.S. Over the Atlantic, supply of self-storage space is approaching 600 sqm per 1000 population, while Western Europe ranges between 4 sqm in Italy and 79 sqm in the U.K., with an average around 35 sqm¹.

The U.S. self-storage market has a balanced model of supply and demand. In Europe, both supply and demand are a work in progress, with the fundamentals of storage space providing a compelling growth opportunity.

There are two differences to consider, rental pricing (average per sqm per month in the U.S. is €17 compared to €28 in Europe) and the amount of goods households own (retail sales per capita are about €17,000 in the U.S. versus €11,000 across Germany, France and the U.K.)^{1,2} Adjusting for these factors supporting U.S. self-storage, and acknowledging U.S. consumerism has been exported almost globally, it appears that self-storage in Europe should have scope for growth.

The industry has considered the differences of self-storage fundamentals within Europe to determine the relative market potential of self-storage. Events such as moving house, divorce, death or

Figure 1: How aware are you of self-storage?



Source: CBRE, FEDESSA, 2023.

migration were identified as the main entry points for consumers into the sector. While these can fluctuate over time and vary across countries, it is accepted that these recurring life events create inelastic demand for self-storage, regardless of region or business cycle.

However, another factor is that, unlike the U.S., self-storage in Europe is an unknown space for many consumers.

Breaking through

A survey from the Federation of European Self Storage Associations (Figure 1) showed that in less developed markets like Spain, almost half of survey respondents had never heard of self-storage. While in the U.K., where self-storage was introduced at some scale in the 1990s, only 9% of consumers are unaware of self-storage services existing.

Some markets, such as Sweden, have caught up with the U.K. and more established brand names have been able to push their message deeper into public consciousness. That means self-storage companies have had to, and can, successfully create their own market.

Brands with sizeable portfolios can make an impact across a country, but it takes time to build as consumers must discover a service they did not previously know they needed. The top

three European players have a market share of just 10% and the top 20 of barely 25%, which means consolidation might be needed to spur growth, increasing the presence and awareness of leading self-storage services as a result¹.

European self-storage in its infancy

Figure 1 can serve as a signpost for how much dormant storage demand could be awakened. Four out of five U.K. respondents are aware of self-storage, and more than half of these claim they know it reasonably well. But most of these are not using it or have only used it for a short period of time. This is a reminder that cultural differences between the U.S. and Europe are alive and well and means that European self-storage is on a different trajectory.

As for the cyclical story, self-storage is going through a rough patch like all real estate in a weaker economy as the effects of higher interest rates and inflation continues to be felt. But self-storage rents are still growing. The sector is chronically undersupplied and benefits from the fact that life events, which trigger the need for storage, are happening with a regularity unrelated to the business cycle.

Negative effects like weaker housing

market activity can be partly offset by a rise of households downsizing. In Europe, the structural momentum of self-storage crowds out most of the potentially negative cyclical factors. This contrasts with the mature U.S. markets where asking rents have fallen by around 30% in this cycle so far, while Europe only recorded slower growth and marginally lower occupancy rates.

Challenges and opportunities

Europe has vastly different challenges to contend with compared with the U.S. Not only must the self-storage players become more visible in Europe; they must also find ways to expand storage space capabilities in an area with considerably less land mass than the U.S., be that by sector consolidation or through other means.

Despite the challenges, the drivers of user demand in Europe – non-cyclical life events – are the same as those in the U.S. While the U.S. self-storage market has now matured, becoming exposed to the same business cycles as other real estate sectors, the non-cyclical demands in the infant European market means self-storage offers diversification.

The evolution of the European self-storage market will take time, with some regions needing longer than others, though the drivers spurring self-storage are unlikely to change.

Partnering with a manager that has a proven track record within the self-storage sector is one way of entering this burgeoning market. An experienced manager may have the ability to identify how European self-storage not only differs from the U.S., but the intricacies between European markets, tapping into these factors as the portfolio characteristics that the younger European self-storage space can provide.

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1 CBRE, FEDESSA, 2023. 2 Oxford Economics, 2023.

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